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CANARGO ENERGY CORP  
Form 10-Q  
May 14, 2003

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

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

COMMISSION FILE NUMBER 0-9147  
-----

CANARGO ENERGY CORPORATION

-----  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware

91-0881481

-----  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

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

CanArgo Energy Corporation  
P.O. Box 291, St. Peter Port, Guernsey, British Isles

GY1 3RR

-----  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

-----  
(ZIP CODE)

(44) 1481 729 980

-----  
(REGISTRANT'S TELEPHONE NUMBER)

150 Buckingham Palace Road, London, SW1W 9TR

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

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

Yes    X                          No  
-----                          -----

The number of shares of registrant's common stock outstanding on April 30, 2003

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was 97,356,206.

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## FORWARD-LOOKING STATEMENTS

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

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## PART I - FINANCIAL INFORMATION CANARGO ENERGY CORPORATION AND SUBSIDIARIES

### ITEM 1. FINANCIAL STATEMENTS CONSOLIDATED CONDENSED BALANCE SHEETS

	Unaudited	
	MARCH 31, 2003	December 31, 2002
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,894,567	\$ 1,598,304
Accounts receivable	380,697	306,336
Inventory	152,348	185,924
Prepayments	293,781	211,623
Assets held for sale	8,223,686	8,095,947
Other current assets	173,830	175,951
	-----	-----
Total current assets	\$ 11,118,909	\$ 10,574,085
Capital assets, net (including unevaluated amounts of \$37,457,900 and \$36,843,425, respectively)	60,144,348	59,702,525
Investments in and advances to oil and gas and other ventures - net	355,895	459,308
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 71,619,152</b>	<b>\$ 70,735,918</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 1,298,804	\$ 871,996
Loans payable	380,000	--
Deferred revenue	2,000,000	1,500,000
Income taxes payable	61,000	61,000
Accrued liabilities	268,167	204,045
Liabilities held for sale	2,463,249	2,351,965
	-----	-----
Total current liabilities	\$ 6,471,220	\$ 4,989,006
Provision for future site restoration	141,000	122,290
Minority interest in subsidiaries	3,502,050	3,519,342
Commitments and contingencies (Note 17)		
Stockholders' equity:		
Common stock, par value \$0.10 per share	9,735,620	9,735,620
Capital in excess of par value	145,151,475	145,151,475
Foreign currency translation adjustment	34,833	4,668
Accumulated deficit	(93,417,046)	(92,786,483)
	-----	-----
Total stockholders' equity	\$ 61,504,882	\$ 62,105,280
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 71,619,152</b>	<b>\$ 70,735,918</b>
	=====	=====

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See accompanying notes to unaudited consolidated condensed financial statements.

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PART I - FINANCIAL INFORMATION  
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Unaudited	
	MARCH 31, 2003	MARCH 31, 2002
	-----	-----
Operating Revenues from Continuing Operations:		
Oil and gas sales	\$ 1,141,458	\$ 1,637,929
Other	--	1,243,505
	-----	-----
	1,141,458	2,881,434
	-----	-----
Operating Expenses:		
Field operating expenses	319,178	595,976
Direct project costs	166,586	629,439
Selling, general and administrative	766,367	751,545
Depreciation, depletion and amortization	578,638	769,413
	-----	-----
	1,830,769	2,746,373
	-----	-----
OPERATING (LOSS) INCOME FROM CONTINUING OPERATIONS	(689,311)	135,061
	-----	-----
Other Income (Expense):		
Interest, net	(2,304)	(4,519)
Other	1,205	(59,819)
Equity income (loss) from investments	21,515	(8,125)
	-----	-----
TOTAL OTHER INCOME (EXPENSE)	20,416	(72,462)
	-----	-----
NET (LOSS) INCOME BEFORE MINORITY INTEREST	(668,895)	62,599
	=====	=====
Minority interest in income (loss) of consolidated subsidiaries	6,184	(81,575)
	-----	-----
NET LOSS FROM CONTINUING OPERATIONS	\$ (662,711)	\$ (18,976)
	=====	=====
NET (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAXES AND MINORITY INTEREST	(9,142)	106,019
Cumulative effect of change in accounting principle	41,290	--
	-----	-----
NET (LOSS) INCOME	(630,563)	87,043
	=====	=====
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation	30,165	--

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COMPREHENSIVE (LOSS) INCOME	\$ (600,398)	\$ 87,043
Weighted average number of common shares outstanding	97,356,206	94,787,113
NET LOSS PER COMMON SHARE - BASIC AND DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING		
- from continuing operations	\$ (0.01)	\$ 0.00
- from discontinued operations	\$ (0.00)	0.00
NET LOSS PER COMMON SHARE - BASIC AND DILUTED	\$ (0.01)	\$ 0.00

See accompanying notes to unaudited consolidated condensed financial statements.

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PART I - FINANCIAL INFORMATION  
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Unaudited	
	MARCH 31, 2003	March 31, 2002
Operating activities:		
Net (loss) from continued operations	(662,711)	(18,976)
Depreciation, depletion and amortization	578,638	769,413
Cumulative effect of change in accounting principle	41,290	--
Equity income from investments	(21,515)	8,125
Minority interest in (loss) income of consolidated subsidiaries	(6,184)	81,575
Changes in assets and liabilities:		
Accounts receivable	(74,361)	(785,528)
Inventory	33,576	258,772
Prepayments	(47,071)	604,127
Other current assets	2,121	(656,139)
Accounts payable	426,808	1,186,926
Accrued liabilities	64,122	(63,342)
NET CASH GENERATED BY OPERATING ACTIVITIES	334,713	1,384,953
Investing activities:		
Capital expenditures	(971,586)	(4,246,953)
Repayments from (Investments in and advances to) oil and gas and other ventures	124,928	(41,349)
Advance proceeds from the sale of CanArgo Standard Oil Products	500,000	--
Change in non cash working capital items	(35,087)	1,143,541
NET CASH USED IN INVESTING ACTIVITIES	(381,745)	(3,144,761)
Financing activities:		

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Proceeds from sale of common stock	--	1,762,433
Share issue costs	--	(162,215)
Funds held in trust	--	(1,762,433)
Minority shareholder advances	--	445,000
(Repayment of) Advances from minority interest	(11,108)	--
Proceeds from loans	380,000	--
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	368,892	282,785
NET CASH FLOWS FROM ASSETS AND LIABILITIES HELD FOR SALE	(25,597)	(7,876)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	296,263	(1,484,899)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,598,304	5,891,038
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,894,567	\$ 4,406,139
	=====	=====

See accompanying notes to unaudited consolidated condensed financial statements.

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### PART I - FINANCIAL INFORMATION CANARGO ENERGY CORPORATION AND SUBSIDIARIES

#### ITEM 1. FINANCIAL STATEMENTS

NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2003 AND MARCH 31, 2002 (UNAUDITED)

##### (1) Basis of Presentation

The interim consolidated condensed financial statements and notes thereto of CanArgo Energy Corporation and its subsidiaries (collectively, CanArgo) have been prepared by management without audit. In the opinion of management, the consolidated condensed financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The accompanying consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in CanArgo's Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission. All amounts are in U.S. dollars.

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

During 2002, the Company adopted the self-sustaining method of accounting for CanArgo Standard Oil Products. The adoption of the self-sustaining method was necessitated by the fact that CanArgo Standard Oil Products was no longer financially and operationally dependant upon its parent company. Under the self-sustaining method of foreign currency translation, assets and liabilities are translated into US dollars at period end exchange rates and income and expenses are translated into US dollars at average rates in effect during the period. Exchange gains and losses on translation are reflected as a separate component of shareholders' equity.

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

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash

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expenditures. Full development of these properties will require the availability of substantial funds from external sources. CanArgo believes that it will be able to generate funds from external sources including quasi-governmental financing agencies, conventional lenders, equity investors and other oil and gas companies that may desire to participate in CanArgo's oil and gas projects, although no firm funding commitments have been received and there can be no assurance that any such commitments will be obtained, or, if obtained, will be on commercially acceptable terms.

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

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

The consolidated financial statements of CanArgo do not give effect to any additional impairment in the value of CanArgo's oil and gas properties and ventures or other adjustments that would be necessary if financing cannot be arranged for the development of such properties and ventures or if they are unable to achieve profitable operations. Failure to arrange such financing on reasonable terms or failure of such

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properties and ventures to achieve profitability would have a material adverse effect on the financial position, including realization of assets, results of operations, cash flows and prospects of CanArgo.

### (3) Stock Based Compensation Plans

CanArgo has adopted only the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure - An amendment of FASB Statement No. 123 ("SFAS No. 148"), and has elected to continue to record stock-based compensation expense using the intrinsic-value approach prescribed by Accounting Principles Board ("APB") Opinion 25. The application of APB Opinion 25 has further been clarified by Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation". Accordingly, CanArgo computes compensation cost

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for each employee stock option granted as the amount by which the quoted market price of the CanArgo's Common Stock on the date of grant exceeds the amount the employee must pay to acquire the stock. The amount of compensation costs, if any, is charged to operations over the vesting period.

The following table, prepared in accordance with SFAS No. 148, sets forth the income statement had compensation cost for stock options been determined consistent with SFAS No. 123 for the three month period ended March 31, 2003, and the three month period ended March 31, 2002:

Income statement had compensation cost for stock options been determined consistent with SFAS No. 123	MARCH 31, 2003 (Unaudited) -----	MARCH 31, 2002 (Unaudited) -----
Net Loss as reported	\$ (630,563)	\$ 87,043
Net Loss per common share - Basic and Diluted as reported	(0.01)	(0.00)
Stock-based compensation cost, net of related tax effects, included in the determination of net income reported	--	--
Stock-based compensation cost, net of related tax effects, that would have been included in the determination of net income reported if the fair value based method had been applied to all awards	404,076	231,335
Net Loss as if the fair value based method had been applied to all awards	(1,034,639)	(144,292)
Net Loss per common share - Basic and Diluted as if the fair value based method had been applied to all awards	(0.01)	(0.00)

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(4) **Asset Retirement Obligations**

On January 1, 2003 CanArgo adopted FASB Statement No. 143 "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires companies to record the discounted fair value of a liability for an asset retirement obligation in the period in which the liability is incurred concurrent with an increase in the long-lived assets carrying value. The increase and subsequent adjustments in the related long-lived assets carrying value is amortised over its useful life. Upon settlement of the liability a gain or loss is recorded for the



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difference between the settled liability and the recorded amount. The discount associated with the liability is accreted into income over the related asset's useful life. Upon adoption of this standard an entity is required to record the fair value of its existing asset retirement obligations as if the liabilities had been initially accounted for in accordance with SFAS 143 using assumptions present at the date of adoption. The income statement effect of the treatment is recorded as a cumulative effect in accounting principle in the period of adoption, no retroactive restatement is permitted. During the first quarter of 2003, CanArgo recorded a credit to income for the cumulative effect of change in accounting principle of \$41,290, increased long-term liabilities to recognize its total obligation and increased net capital assets in accordance with the provisions of SFAS No. 143 to the amount of \$82,000. No deferred tax expense has been recognized on the SFAS 143 credit as the group is in a net deferred tax asset position against which full allowance has been made as it is considered more likely than not that the deferred tax asset will not be realized. There was no impact on the Company's cash flows as a result of adopting SFAS No. 143. The pro forma asset retirement obligation would have been \$138,000 at December 31, 2002 had the Company adopted SFAS No. 143 on January 1, 2002. The asset retirement obligation, which is included on the Consolidated Balance Sheet in Provision for Future site restoration, was \$141,000 at March 31, 2003. The pro-forma amounts assuming the new method of determination under SFAS 143 were not materially different to the amounts shown in the income statement and the balance sheet for the prior year.

(6) Accounts Receivable

Accounts receivable at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Accounts Receivable before allowance for doubtful debts	1,032,618	958,257
Allowance for doubtful debts	(651,921)	(651,921)
	-----	-----
	\$ 380,697	\$ 306,336
	=====	=====

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(7) Inventory

Inventory at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Crude oil	\$ 126,498	\$ 158,896
Refined products	25,850	27,028
	-----	-----

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\$ 152,348      \$ 185,924  
 =====

(8) Capital Assets, Net

Capital assets, net of accumulated depreciation and impairment, at March 31, 2003 and December 31, 2002 include the following:

	MARCH 31, 2003			December 31, 2002
	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT	NET CAPITAL ASSETS	NET CAPITAL ASSETS
OIL AND GAS PROPERTIES				
Proved properties	\$33,076,498	\$18,859,771	\$14,216,727	\$14,020,971
Unproved properties	37,457,900		37,457,900	36,843,425
	70,534,398	18,859,771	51,674,627	50,864,396
PROPERTY AND EQUIPMENT				
Oil and gas related equipment	11,759,878	3,908,028	7,851,850	8,203,963
Office furniture, fixtures and equipment and other	1,197,853	679,982	517,871	534,166
	12,957,731	4,588,010	8,369,721	8,738,129
REFINING	4,154,216	4,054,216	100,000	100,000
TOTAL	\$87,646,345	\$27,501,997	\$60,144,348	\$59,702,525

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

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

CanArgo has acquired interests in oil and gas and other ventures through less than majority interests in corporate and corporate-like entities. A summary of CanArgo's net investment in and advances to oil and gas and other ventures at March 31, 2003 and December 31, 2002 is set out below:

	MARCH 31, 2003	December 31, 2002
INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES		
Ukraine - Stynawske Field, Boryslaw Through 45% ownership of Boryslaw		

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Oil Company	\$6,442,223	\$6,524,121
Other Investments	75,000	75,000
	-----	-----
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	\$6,517,223	\$6,599,121
	-----	-----

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	MARCH 31, 2003	December 31, 2002
	-----	-----
EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES		
Ukraine - Stynawske Field, Boryslaw	\$ (701,535)	\$ (680,020)
	-----	-----
CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	\$ (701,535)	\$ (680,020)
IMPAIRMENT - STYNAWSKE FIELD, BORYSLAW	(5,459,793)	(5,459,793)
	-----	-----
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT	\$ 355,895	\$ 459,308
	=====	=====

Under the terms of the license Boryslaw Oil Company holds in the Stynawske field, field operations were to be transferred to Boryslaw Oil Company effective January 1, 1999. As a result of prolonged negotiations, which created significant uncertainty as to CanArgo's ability to raise funds for the project or enter into a satisfactory farm-out agreement on a timely basis, CanArgo recorded in the third quarter of 1999 an impairment charge of \$5,459,793 against its entire investment in and advances to Boryslaw Oil Company.

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence to allow a proper assessment of the workovers and development plans completed to date. CanArgo's advance to Boryslaw Oil Company of \$500,000 has also been repaid in full at March 31, 2003. Boryslaw Oil Company has not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for financing to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

CanArgo's venture in Boryslaw Oil Company is in the development stage and accordingly, realization of this investment is dependent upon successful development of and ultimately cash flows from operations of

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the venture.

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

(10) Accounts Payable

Accounts payable as at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Trade creditors	1,298,804	871,996
	-----	-----
	\$1,298,804	\$ 871,996
	=====	=====

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(11) Loans Payable

Loans payable as at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Loans payable	380,000	--
	-----	-----
	\$ 380,000	\$ --
	=====	=====

Loans payable of \$380,000 at March 31, 2003 relates to a short-term secured loan facility maturing on February 27, 2004, that a subsidiary of CanArgo entered into, locally in Georgia, at an effective interest rate of 20% in order to fund the drilling of a new horizontal well, N4H, at the Ninotsminda field in Georgia. No parent company guarantees have been provided by CanArgo with respect to this loan.

(12) Deferred Revenue

Deferred revenue as at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Prepaid sales	1,000,000	1,000,000
Advanced proceeds from the sale of subsidiary	1,000,000	500,000

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-----	-----
\$2,000,000	\$1,500,000
=====	=====

See note 19 for details of the sale of the subsidiary classified as discontinued operation.

(13) Accrued Liabilities

Accrued liabilities at March 31, 2003 and December 31, 2002 include the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Professional fees	\$ 76,500	\$ 105,000
Other	191,667	99,045
	-----	-----
	\$ 268,167	\$ 204,045
	=====	=====

(14) Minority Interest

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 64.2% in Norio and its existing Norio and North Kumisi production sharing agreement. 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. The nominal

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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 \$4,059,875.

CanArgo Norio Limited (Norio) is consolidated in the accounts of CanArgo.

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

(15) Stockholders' Equity

COMMON STOCK				
-----				
NUMBER OF SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	FOREIGN CURRENCY TRANSLATION	ACCUMU DEF

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TOTAL, DECEMBER 31, 2002	97,356,206	\$ 9,735,620	\$145,151,475	\$ 4,668	\$ (92,7
Current year adjustment				30,165	
Net loss					(6
TOTAL, MARCH 30, 2003	97,356,206	\$ 9,735,620	\$145,151,476	\$ 34,833	\$ (93,4

(16) Net Loss Per Common Share

Basic and diluted net loss per common share for the three month periods ended March 31, 2003 and 2002 are based on the weighted average number of common shares outstanding during those periods. The weighted average numbers of shares issued and issuable without receipt of additional consideration for the three month periods ended March 31, 2003 and 2002 are 97,356,206 and 94,787,113 respectively. Options to purchase CanArgo's common stock were outstanding at March 31, 2003 but were not included in the computation of diluted net loss per common share because the effect of such inclusion would have been anti-dilutive.

(17) Commitments and Contingencies

OIL AND GAS PROPERTIES AND INVESTMENTS IN OIL AND GAS VENTURES

CanArgo has contingent obligations and may incur additional obligations, absolute and contingent, with respect to acquiring and developing oil and gas properties and ventures. At March 31, 2003, CanArgo had the contingent obligation to issue an aggregate of 187,500 shares of its common stock, subject to the satisfaction of conditions related to the achievement of specified performance standards by the Stynawske field project.

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

In 2002 the Participation Agreement for the three well exploration programme on the Ninotsminda area with AES was terminated without AES earning any rights to any of the Ninotsminda field reservoirs. The Company therefore has no present obligations in respect of AES. However, under a separate Letter of Agreement, if gas from the sub Middle Eocene is discovered and produced, AES will be entitled to recover

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its costs in the project at the rate of 15% of future gas sales from the sub Middle Eocene, net of operating costs, approximately \$7.5 million, representing their prior funding under the Participation Agreement.

In January 2003, CanArgo won exclusive rights to negotiate a Production Sharing Contract (PSC) for Block XIX in southern Syria. CanArgo has the contingent obligation to issue an aggregate of 333,000 stock options at a proposed exercise price of \$0.17 per share, subject to the successful

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award and ratification of the PSC for Block XIX in southern Syria.

(18) Segment Information

Operating revenues from continued operations for the three month periods ended March 31, 2003 and 2002 by geographical area were as follows:

	MARCH 31, 2003	March 31, 2002
	-----	-----
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	\$1,114,458	\$1,637,929
OTHER		
Eastern Europe	--	1,243,505
	-----	-----
TOTAL	\$1,114,458	\$2,881,434
	=====	=====

Other Eastern Europe operating revenue relates to income from the provision of drilling services in Georgia.

Operating (loss) income from continued operations for the three month periods ended March 31, 2003 and 2002 by geographical area was as follows:

	MARCH 31, 2003	March 31, 2002
	-----	-----
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	\$ 332,718	\$ 1,589,651
REFINING		
Eastern Europe	(12,691)	24,731
CORPORATE AND OTHER EXPENSES	(1,009,338)	(1,479,321)
	-----	-----
TOTAL OPERATING (LOSS) INCOME	\$ (689,311)	\$ 135,061
	=====	=====

Net (loss) income before minority interest from continuing operations for the three month periods ended March 31, 2003 and 2002 by geographic area was as follows:

	MARCH 31, 2003	March 31, 2002
	-----	-----

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OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	\$ 332,718	\$ 1,514,055
REFINING		
Eastern Europe	(12,362)	19,875
CORPORATE AND OTHER EXPENSES		
	(989,251)	(1,471,331)
-----		
NET (LOSS) INCOME BEFORE MINORITY INTEREST	\$ (668,895)	\$ 62,599
	=====	=====

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Identifiable assets of continuing and discontinued operations as of March 31, 2003 and December 31, 2002 by business segment and geographical area were as follows:

	MARCH 31, 2003	DECEMBER 31, 2002
	-----	-----
CORPORATE		
Eastern Europe	\$ 44,081	\$ 203,291
Western Europe (principally cash)	2,451,141	2,274,847
	-----	-----
TOTAL CORPORATE	2,895,222	2,478,138
	-----	-----
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	60,044,349	59,602,525
REFINING		
Eastern Europe	100,000	100,000
ASSETS HELD FOR SALE		
Eastern Europe	7,657,875	7,536,677
Western Europe	565,811	559,270
	-----	-----
TOTAL ASSETS HELD FOR SALE	8,223,686	8,095,947
	-----	-----
OTHER ENERGY PROJECTS		
Eastern Europe	355,895	459,308
	-----	-----
TOTAL IDENTIFIABLE ASSETS	\$71,619,152	\$70,735,918
	=====	=====

(19) Discontinued Operations

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



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

The results of discontinued operations at March 31, 2003 and March 31, 2002 consisted of the following:

	MARCH 31, 2003	March 31, 2002
	-----	-----
Operating Revenues	2,070,440	1,364,705
(Loss) Income Before Income taxes and Minority Interest	(18,284)	186,488
Income Taxes	--	(37,301)
Minority Interest in Loss (Income)	9,142	(106,019)
	-----	-----
Net (Loss) Income from Discontinued Operation	\$ (9,142)	\$ 106,019
	=====	=====

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Gross consolidated assets and liabilities of subsidiary held for sale that are included in "assets and liabilities held for sale" at March 31, 2003 and December 31, 2002 consisted of the following:

	MARCH 31, 2003	December 31, 2002
	-----	-----
Assets held for sale:		
Cash and cash equivalents	68,607	37,948
Accounts receivable	191,736	243,529
Inventory	143,338	224,733
Other current assets	203,066	155,079
Capital assets, net	6,490,680	6,326,478
Investment in other ventures, net	560,448	548,910
	-----	-----
	\$7,657,875	\$7,536,677
	=====	=====
Liabilities held for sale:		
Accounts payable	188,003	143,296
Current portion of long term debt	1,718,287	1,268,422
Income taxes payable	32,559	48,880
Long term debt	524,400	891,367
	-----	-----
	\$2,463,249	\$2,351,965
	=====	=====

Other investments include three petrol station sites in Tbilisi, Georgia in which CanArgo has a 50% non-controlling interest. CanArgo

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accounts for its interest in the three petrol station sites using the equity method and consolidates the remaining sites in which it has controlling interest. In 2002, CanArgo purchased the remaining 50% of Petro-Invest, a petrol station site in which CanArgo previously held a 50% non-controlling interest. This site is now consolidated in the results of CanArgo Standard Oil Products, above.

Cash consideration received at March 31, 2003 in respect of this transaction was \$1,000,000 and has been recorded in deferred revenue (see Note 12). The sale will be reflected on receipt of the final \$3 million in August 2003, in accordance with the Sale and Purchase Agreement.

In 2002, the three petrol station sites that CanArgo has a 50% non-controlling interest entered into credit facility agreements of \$550,000 with a commercial lender in Georgia. As at March, 2003 \$520,000 of these facilities were drawn of which \$446,553 under the facilities were outstanding. The loans bear interest at 18% per annum and are secured by the assets of the petrol stations. The full amount of the loans are to be repaid by June 2005. No company guarantees have been provided by CanArgo with respect to these loans.

In November 2001, CanArgo Standard Oil Products Limited entered into a \$1,000,000 credit facility agreement, in May 2002 a further \$240,000 credit facility agreement, in September 2002 a further \$1,900,000 credit facility agreement, and in February 2003 a further \$400,000 with commercial lenders in Georgia and Greece to fund further expansion of its petrol station network. In 2001, the full amount of the first facility was drawn, in 2002 \$180,000 of the second facility was drawn, in September 2002 the full amount of the third facility was drawn, and in February 2003 the full amount of the fourth facility was drawn. As at March 31, 2003, \$2,242,688 of the total facility was outstanding. The loans bear interest between 13% and 18% per annum and are secured by the assets of petrol stations. The full amount of the first loan was repaid by March 2003, the second loan is to be repaid by November 2004, the third loan by July 2005, and the fourth loan by August 2004. No parent company guarantees have been provided by CanArgo with respect to these loans.

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

### (21) Stock Based Compensation Plans

For the year ended December 31, 2002 CanArgo had 6,734,501 share options outstanding with exercise prices in the range of \$0.14 to \$1.85 a share. During March 2003, CanArgo re-priced 5,117,501 fully

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vested options to an exercise price of US \$0.10 to better align the option value with current CanArgo share price (\$0.04 at the date of the re-pricing). Due to the fact CanArgo share price at the date of the re-pricing was less than the exercise price of the re-priced options no compensation expense is required to be recorded in accordance with APB Opinion No. 25. In addition, during February 2003 CanArgo issued 1,589,166 new options at an exercise price of \$0.10, which vested immediately and expire in 5 years. No compensation expense was recognized under APB Opinion No. 25 in relation to the new options due to the fact that the share price at the date of issuance was greater the exercise price of the options. The pro-forma fair value of each stock option granted by CanArgo was calculated using the Black-Scholes option-pricing model applying the following weighted-average assumptions for the period ended March 31, 2003 and the year ended December 31, 2002 dividend yield of 0.00%, risk-free interest rate of 2.91% for the period ended March 31, 2003, dividend yield of 80.470%, risk-free interest rate of 2.91% for the year ended December 31, 2001, the average expected lives of options of 5.0 years and volatility of 80.47% for the period ended March 31, 2003 and 80.47% for the year ended December 31, 2002.

### (21) Subsequent Events

On April 22, 2003 CanArgo announced the results of horizontal well N4H, in the Ninotsminda Field, Georgia. The well, which is a horizontal sidetrack from an existing well bore in the Middle Eocene reservoir at approximately 2,356 metres. The horizontal production section extends for a total distance of 400 metres in the west central area of the field between the N4 and N9 wells. Following extensive production testing, the well was placed on production at a rate of over 1,000 barrels of oil per day, thus more than doubling field production. The current production from the well is approximately 1,400 barrels of oil per day.

On May 2, 2003 CanArgo announced the appointment of Mr Vincent McDonnell to the position of director on the Board of CanArgo. On the same date, CanArgo reached agreement with Vazon Energy Limited on a deed of variation of the Management Services Agreement (MSA) under which Vazon Energy Limited supplied the services of Dr David Robson.

In May 2003, Ninotsminda Oil Company entered into a new 12 month crude oil sales agreement whereby the buyer will provide security payment to \$1.75 million in return for the right to lift up to 5,000 metric tonnes of oil per month for the 12 month period commencing August 2003. At the end of the 12 months the security payment will be repaid through the delivery of additional crude oil equal to the value of the security. This agreement replaces an existing crude oil sales agreement, where the buyer had already provided \$1million security.

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

### QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

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

### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, CanArgo had working capital of \$4,648,000, compared to working capital of \$5,585,000 as of December 31, 2002. The \$937,000 decrease in working capital from December 31, 2002 to March 31, 2003 is principally due to a reduction in cash related to capital expenditures on the Ninotsminda project.

As a result of AES Gardabani withdrawing from the Participation Agreement with respect to the Cretaceous gas exploration programme and unexpected mechanical difficulties drilling exploration wells M11 at the Ninotsminda field and MK72 on the Norio Production Sharing Agreement, and delays in testing well N100, capital expenditures exceeded initial estimates and production volumes available for sale are less than anticipated. These events resulted in lower than expected cash resources from which CanArgo could continue its development activities in Georgia. In order to preserve available cash resources while still maintaining essential field operations and development activities in Georgia, a significant cost reduction plan was implemented with both direct project and general and administrative costs being reduced. These reductions together with the additional resource being generated by the successful horizontal production well, N4H, on the Ninotsminda field, the receipt of the final \$3 million payment from the agreed sale of CanArgo's interest in its retail operation CanArgo Standard Oil Products, the planned selective sale of certain non-core assets including CanArgo's generator, and a portion or all of CanArgo's drilling equipment should provide CanArgo the working capital necessary to cover CanArgo's immediate and near term funding requirements with respect to its activities in the Republic of Georgia and elsewhere.

In January 2003, in an attempt to increase production at the Ninotsminda field and further improve working capital, drilling of a new horizontal well, N4H, commenced targeting an existing producing reservoir. The well was successfully completed and put on production at over 1,000 barrels of oil per day in April 2003. This has more than doubled production from the field. Provided funds are available, immediate and near term development plans include the drilling of further production horizontal sidetracks on the Ninotsminda field, the completion of testing of well N100 and the continued drilling of wells M11 and Norio MK72, two deep exploration wells. CanArgo has temporarily suspended further drilling of well M11 below its current casing point at 4,182 metres in order to fully review available technical data, and to estimate the cost to complete the well. Norio MK72, has been cased at a depth of 2,932 metres in the Lower Sarmatian. Farm-in partners are currently being sought to provide additional capital for completing these wells.

In April 2001, CanArgo acquired Lateral Vector Resources Inc. ("LVR") for total cash consideration of \$3,421,000 which according to publicly available information at the time had concluded with Ukrnafta a Joint Investment Production Activity (JIPA) agreement to develop the Bugruvativske Field in Eastern Ukraine. Funding for the LVR acquisition was provided from existing cash resources.

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 a local Ukrainian oil and gas company on the terms of a farm-in to the JIPA. The terms of the farm-in 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

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amount invested by the local Ukrainian oil and gas company, prior to 31 December 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 31 December 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.

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Initial costs in respect of CanArgo's investment in the Bugruvatyske field, through its direct investment in LVR, are included in "capital assets - unproved properties". These costs will continue to be disclosed as unproved properties until CanArgo participates in the JIPA by investing an amount up to the cash contribution made by its JIPA partner, IPEC. Any contribution must be made prior to 31 December 2003, in order for CanArgo to participate in the existing JIPA.

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding for \$4 million with legal ownership being transferred upon receipt of the final \$3 million payment due in August 2003.

In 2001 an agreement was reached to undertake a limited investment and development programme by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met; however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. CanArgo's advance to Boryslaw Oil Company of \$500,000 has also been repaid in full at March 31, 2003. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for financing to carry out the work programme. If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

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

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

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

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

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash expenditures. Full development of CanArgo's oil and gas properties and ventures will require the availability of substantial additional financing from external sources. CanArgo may also, where opportunities exist, seek to transfer portions of its interests in oil and gas properties and ventures to entities in exchange for such financing. CanArgo generally has the principal responsibility for arranging financing for the oil and gas properties and ventures in which it has an interest. There can be no assurance, however, that CanArgo or the entities that are developing the oil and gas properties and ventures will be able to arrange the financing necessary to develop the projects being undertaken or to support the corporate and other activities of CanArgo. There can also be no assurance that such financing as is available will be on terms that are attractive or acceptable to or are deemed to be in the best interest of CanArgo, such entities and their respective stockholders or participants.

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Ultimate realization of the carrying value of CanArgo's oil and gas properties and ventures will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to CanArgo. Establishment of successful oil and gas operations is dependent upon, among other factors, the following:

- o mobilization of equipment and personnel to implement effectively drilling, completion and production activities;
- o raising of additional finance;
- o achieving significant production at costs that provide acceptable margins;

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- o reasonable levels of taxation, or economic arrangements in lieu of taxation in host countries; and
- o the ability to market the oil and gas produced at or near world prices.

Subject to the raising of additional capital, above, CanArgo has plans to mobilize resources and achieve levels of production and profits sufficient to recover the carrying value of its oil and gas properties and ventures. However, if one or more of the above factors, or other factors, are different than anticipated, these plans may not be realized, and CanArgo may not recover the carrying value of its oil and gas properties and ventures. CanArgo should be entitled to distributions from the various properties and ventures in which it participates in accordance with the arrangements governing the respective properties and ventures.

### STATEMENT OF CASH FLOWS

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

Cash and cash equivalents increased \$297,000 to \$1,895,000 at March 31, 2003 from \$1,598,000 at December 31, 2002. The increase was primarily due to loan received in the period, provided to fund the cost of drilling a new horizontal well, N4H, at the Ninotsminda field in Georgia.

Accounts receivable increased to \$381,000 at March 31, 2003 from \$306,000 at December 31, 2002. The increase is primarily a result of accounts receivable generated from oil and natural gas sales..

Inventory decreased to \$152,000 at March 31, 2003 from \$186,000 at December 31, 2002 primarily as result of the sale of oil by Ninotsminda Oil Company from storage. Approximately 26,000 barrels of oil were held in storage by Ninotsminda Oil Company at March 31, 2003 for sale to the Georgian domestic, regional or international market.

Prepayments increased to \$294,000 at March 31, 2003 from \$212,000 at December 31, 2002 as a result of payment of materials and services related to CanArgo's exploration activities. This increase is included in the statement of cash flows as an investing activity.

Assets held for sale, consisting of assets of discontinued operations and a 3 megawatt dual fuel power generator, increased by \$128,000 to \$8,224,000 at March 31, 2003 from \$8,096,000 at December 31, 2002 primarily due to activity at CanArgo Standard Oil Products relating to the addition of new petrol stations in Georgia.

Other current assets decreased from \$176,000 at December 31, 2002 to \$174,000 at March 31, 2003.

Capital assets, net increased from \$59,703,000 at December 31, 2002 to \$60,144,000 at March 31, 2003, primarily as a result of investment of \$972,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda production sharing contract.

Investments in and advances to oil and gas and other ventures, net decreased from \$459,000 at December 31, 2002 to \$356,000 at March 31, 2003. The decrease reflects repayment by Boryslaw Oil Company of CanArgo's advances in 2003 partially offset by an increase in equity income related to CanArgo's investment

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in Boryslaw Oil Company.

Accounts payable increased to \$1,299,000 at March 31, 2003 from \$872,000 at December 31, 2002 primarily due to an absolute increase in corporate payables, and payables relating to materials and services related to the drilling of a new horizontal well, N4H, at the Ninotsminda field in Georgia.

Loans payable of \$380,000 at March 31, 2003 relates to a short-term secured loan facility maturing on February 27, 2004, that a subsidiary of CanArgo entered into, locally in Georgia, at an effective interest rate of 20% in order to

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fund the drilling of a new horizontal well, N4H, at the Ninotsminda field in Georgia. No parent company guarantees have been provided by CanArgo with respect to this loan.

Deferred revenue increased to \$2,000,000 at March 31, 2003 from \$1,500,000 at December 31, 2002 due to advanced proceeds received for the sale of CanArgo Standard Oil Products in the period. Proceeds received in respect of the CanArgo Standard Oil Products sale are \$1,000,000 at March 31, 2003.

Accrued liabilities increased to \$268,000 at March 31, 2003 from \$204,000 at December 31, 2002 primarily due to notification of liabilities relating to 2001 and 2002 business rates payable on CanArgo's London office, partially offset by a reduction in accrued professional fees.

Liabilities held for sale, in respect of discontinued operations, increased by \$111,000 to \$2,463,000 at March 31, 2003 from \$2,352,000 at December 31, 2002 primarily due to additional bank loans drawn by CanArgo Standard Oil Products in Tbilisi at an effective interest rate of 18% per annum, in order to fund the construction of new petrol stations in Georgia. No parent company guarantees have been provided by CanArgo with respect to these loans.

Minority interest in continuing and discontinued subsidiaries decreased by \$17,000 to \$3,502,000 at March 31, 2003 from \$3,519,000 at December 31, 2002, due to minority interest shareholder's share of losses in the period.

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

### CONTRACTUAL OBLIGATIONS AND COMMERCIAL TERMS

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

Our production sharing contracts and mineral use licenses, entered into prior to the introduction in 1999 of a new Petroleum Law governing such agreements have not, as yet, been amended to reflect or ensure compliance with current



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legislation. As a result, despite references in the current legislation grandfathering the terms and conditions of our production sharing contracts, conflicts between the interpretation of our production sharing contracts and mineral use licenses and current legislation could arise. Such conflicts, if they arose, could cause an adverse effect on our rights under the production sharing contracts. However the Norio (Block XI(c)) and North Kumisi Production Sharing Agreement was concluded after enactment of the Petroleum Law, and under the terms and conditions of this legislation.

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

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

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

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In 2002 the Participation Agreement for the three well exploration programme on the Ninotsminda field with AES was terminated without AES earning any rights to any of the Ninotsminda field reservoirs. The Company therefore has no present obligations in respect of AES. However, under a separate Letter of 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, approximately \$7.5 million, representing their prior funding under the Participation Agreement.

In January 2003, CanArgo won exclusive rights to negotiate a Production Sharing Contract (PSC) for Block XIX in southern Syria. CanArgo has the contingent obligation to issue an aggregate of 333,000 stock options at a proposed exercise price of \$0.17 per share, subject to the successful award and ratification of the PSC for Block XIX in southern Syria.

CanArgo has contingent obligations and may incur additional obligations, absolute or contingent, with respect to the acquisition and development of oil and gas properties and ventures in which it has interests that require or may require CanArgo to expend funds and to issue shares of its Common Stock.

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At March 31, 2003, CanArgo had a contingent obligation to issue 187,500 shares of common stock to Fielden Management Services PTY, Ltd (a third party management services company) upon satisfaction of conditions relating to the achievement of specified Stynawske field project performance standards. As CanArgo develops current projects and undertakes other projects, it could incur significant additional obligations.

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 a cost of up to \$4.4 million of which CanArgo's share of costs was \$3.2 million. The State Agency for Oil and Gas Regulations in Georgia has confirmed that CanArgo has satisfied all drilling and work obligations under the terms of the Norio and Kumisi production sharing agreement. The well is currently suspended while CanArgo actively seeks partners for funding to deepen the well to the target zone.

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

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met; however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. CanArgo's advance to Boryslaw Oil Company of \$500,000 was repaid by March 31, 2003. Boryslaw Oil Company has so far not been given notice by the Ukrainian licensing body of early termination of the license. CanArgo is actively seeking to farm-out part of its interest in Boryslaw Oil Company in return for finance to carry out the work programme.

If Boryslaw Oil Company does not proceed with the Stynawske field development programme or if modifications to the current licence agreement cannot be obtained, it may be in breach of obligations it has with regard to the field license and an impairment charge against CanArgo's investment in and advances to Boryslaw Oil Company may be required.

In August 2002, Ninotsminda Oil Company entered into a 12 month crude oil sales agreement to sell its monthly share of oil produced under the Ninotsminda production sharing contract. As security for payment the buyer has paid to Ninotsminda Oil Company \$1 million to be repaid at the end of the twelve month period through the delivery of additional crude oil equal to the value of the security. In May 2003, the parties entered into a new oil sales agreement whereby the buyer will increase the security payment to \$1.75 million in return for the right to lift up to 5,000 metric tonnes of oil per month for the 12 month period commencing August 2003. At the end of the 12 months the security payment will be repaid through the delivery of additional crude oil equal to the value of the security. Under both agreements, crude oil will be sold at dated Brent less a fixed discount per barrel depending on the Brent price. The discount ranges from a minimum of \$6.00 per barrel when dated price is less than \$15.00 per barrel to a maximum \$7.50 per barrel when dated Brent is greater than \$25.01 per barrel.

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### RESULTS OF CONTINUING OPERATIONS

Three Month Period Ended March 31, 2003 Compared to Three Month Period Ended March 31, 2002

CanArgo recorded operating revenue from continuing operations of \$1,141,000 during the three month period ended March 31, 2003 compared with \$2,881,000 for the three month period ended March 31, 2002. The decrease is primarily attributable to lower oil and gas revenues, and no other revenue being recorded in the three month period ended March 31, 2003. Other revenue for the three month period ended March 31, 2002, represented the provision of drilling services in Georgia.

Ninotsminda Oil Company generated \$1,141,000 of oil and gas revenue in the three month period ended March 31, 2003 compared with \$1,638,000 for the three month period ended March 31, 2002 due principally to lower volume of sales from storage in the three month period ended March 31, 2003 compared to the three month period ended March 31, 2002, partially offset by a higher average net sales price achieved in the period. Its net share of the 65,779 barrels (731 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 42,756 barrels. In the period, 6,711 barrels of oil were removed from storage and sold. For the three month period ended March 31, 2002, Ninotsminda Oil Company's net share of the 73,374 barrels (815 barrels per day) of gross oil production was 47,693 barrels. The decline in production is due to limited workover investment resulting in a natural reservoir rate of decline.

Ninotsminda Oil Company's entire share of production was sold locally in Georgia under both national and international contracts. Net sale prices for Ninotsminda oil sold during the first quarter for 2003 averaged \$22.59 per barrel as compared with an average of \$16.20 per barrel in the first quarter of 2002. Its net share of the 29,184 thousand cubic feet (mcf) of gas delivered was 18,970 mcf at an average net sale price of \$1.27 per mcf of gas. For the three month period ended March 31, 2002, Ninotsminda Oil Company's net share of the 27,925 mcf of gas delivered was 18,151 mcf at an average net sales price of \$1.18 per mcf of gas.

CanArgo had other revenue of \$1,244,000 for the three month period ended March 31, 2002 compared to no revenue recorded for the three month period ended March 31, 2003. In 2002, other revenue consisted of the provision of drilling services. In September 2001, CanArgo entered into an agreement to provide drilling services to a third party using one of CanArgo's rigs. Commercial drilling operations commenced in October 2001 and continued through February 2002. The company subsequently established a well services subsidiary and at the end of March 2003 concluded a new drilling service contract with an operating company in Georgia. It will continue to bid in local tenders for drilling contracts in order to utilize drilling equipment not otherwise used in its own operations.

The operating loss from continuing operations for the three month period ended March 31, 2003 amounted to \$689,000 compared with operating income of \$135,000 for the three month period ended March 31, 2002. The increase in operating loss is attributable primarily to profit generated from a drilling services contract, partially offset by a reduced field operating costs; and reduced depreciation, depletion and amortization in the period.

Field operating expenses decreased to \$319,000 for the three month period ended March 31, 2003 as compared to \$596,000 for the three month period ended March 31, 2002. The decrease is primarily a result of decreased activity at the Ninotsminda field.

Direct project costs decreased to \$167,000 for the three month period ended

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March 31, 2003, from \$629,000 for the three month period ended March 31, 2002, primarily due to costs associated with the provision of drilling services in Georgia in 2002.

Selling, general and administrative costs increased to \$766,000 for the three month period ended March 31, 2003, from \$752,000 for the three month period ended March 31, 2002. The increase is primarily as a result of notification of liabilities relating to 2001 and 2002 business rates payable on CanArgo's London office, partially offset by the impact of a corporate cost reduction programme initiated in the last quarter of 2002.

The decrease in depreciation, depletion and amortization expense to \$579,000 for the three month period ended March 31, 2003 from \$769,000 for the three month period ended March 31, 2002 is attributable principally to lower production, due to limited workover investment resulting in a natural reservoir rate of decline.

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CanArgo recorded net other income of \$20,000 for the for the three month period ended March 31, 2003, as compared to net other expense of \$72,000 for the three month period ended March 31, 2002. This is primarily due to foreign exchange losses recorded in 2002 and higher equity income in the period.

Equity income from investments increased to \$22,000 for the three month period ended March 31, 2003 from an equity loss of \$8,000 for the three month period ended March 31, 2002 as a result of increased equity income from production and sales of crude oil by Boryslaw Oil Company.

The cumulative effect of the change in accounting principle of \$42,000 for the three month period ended March 31, 2003 is a result of the adoption of accounting standard FAS 143 relating to the treatment of asset retirement obligations.

The net loss from continuing operations of \$663,000 or \$0.01 per share for the three month period ended March 31, 2003 compares to net loss from continuing operations of \$19,000 or \$0.00 per share for the three month period ended March 31, 2002. The weighted average number of common shares outstanding was higher during the three month period ended March 31, 2003 than during the three month period ended March 31, 2002, due in large part to private placements in February and May 2002.

### RESULTS OF DISCONTINUED OPERATIONS

Three Month Period Ended March 31, 2003 Compared to Three Month Period Ended March 31, 2002

The net loss from discontinued operations, net of taxes and minority interest for the three month period ended March 31, 2003 amounted to \$9,000 compared with net income of \$106,000 for the corresponding period in 2002. The decrease in net income from discontinued operations, net of taxes and minority interest relates entirely to the activities of CanArgo Standard Oil Products, and is due to more competitive operating margins for the three month period ended March 31, 2003 compared with the corresponding period in 2002 and interest on additional bank loans drawn by CanArgo Standard Oil Products in Tbilisi at an effective interest rate of 18% per annum, in order to fund the construction of new petrol stations in Georgia.

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### NEW ACCOUNTING STANDARDS

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The standard replaced the existing guidance provided by EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The statement became effective for CanArgo on January 1, 2003. CanArgo does not expect the adoption of this standard to have a material effect on its financial statements.

We continue to apply the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure -- An Amendment of FASB Statement No. 123," .in 2003 and for the year ended December 31, 2002. SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As permitted by SFAS No. 148, we continue to account for stock options under APB Opinion No. 25.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified became effective January 1, 2003. CanArgo does not expected the adoption of this standard to have a material effect on its financial statements. To date we have not entered into or modified any such guarantees.

On January 1, 2003 CanArgo adopted FASB Statement No. 143 Accounting for Asset Retirement Obligations. Statement 143 requires companies to record the fair value of a liability for an asset retirement obligation in the period in which the liability is incurred concurrent with an increase in the long-lived assets carrying value. The increase and subsequent adjustments in the related long-lived assets carrying value is amortised over its useful life. Upon settlement of the liability a gain or loss is recorded for the difference between the settled liability and the recorded amount.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities

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obtained after January 31, 2003. The application of this Interpretation is not expected to have a material effect on the Company's financial statements. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective.

### FORWARD LOOKING STATEMENTS

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

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

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

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

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

Rising interest rates might affect the feasibility of debt financing that is offered. Potential investors and lenders will be influenced by their evaluations

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of us and our projects and comparisons with alternative investment opportunities.

The development of oil and gas properties is subject to substantial risks. Expectations regarding production, even if estimated by independent petroleum engineers, may prove to be unrealized. There are many uncertainties inherent in estimating production quantities and in projecting future production rates and the timing and amount of future

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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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CanArgo's principal exposure to market risk is due to changes in oil and gas prices and currency fluctuations. As indicated elsewhere in this Report, as a producer of oil and gas CanArgo is exposed to changes in oil and gas prices as well as changes in supply and demand which could affect its revenues. CanArgo does not engage in any commodity hedging activities. Due to the ready market for

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its production in the Republic of Georgia, CanArgo does not believe that any current exposures from this risk will materially affect CanArgo's financial position at this time, but there can be no assurance that changes in such market will not affect CanArgo adversely in the future.

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

While CanArgo Standard Oil Products marketing revenue is denominated in Lari, the local Georgian currency, and is used to pay Lari denominated operating costs, its long term debt is denominated in dollars. As a result, changes in the exchange rate could have a material adverse effect on its ability to pay off non-Lari denominated indebtedness such as its existing credit facility. The sensitivity to changes in exchange rates for CanArgo Standard Oil Products was determined using current market pricing models. We estimate that a 10% appreciation or devaluation in the foreign exchange rate of the Lari against the dollar in 2003 would not have had a significant impact on operations.

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

#### ITEM 4. CONTROLS AND PROCEDURES

Based upon an evaluation within the 90 days prior to the filing date of this report, our Chief Executive Officer and Chief Financial Officer have each concluded that our disclosure controls and procedures as defined in Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934, as amended, are effective, as of the evaluation date, in timely alerting them to material information relating to our Company required to be included in our reports filed or submitted under the Exchange Act. However, no cost-effective internal control system will preclude all errors and irregularities, and management is necessarily required to apply its judgment in evaluating the cost-benefit

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relationship of possible controls and procedures. Since the date of the evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect such controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS - NOT APPLICABLE

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

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

- 1(1) Escrow Agreement with Signature Stock Transfer, Inc. (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(2) Selling Agent Agreement with each of Credifinance Securities Limited, David Williamson Associates Limited, and Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(3) Escrow Agreement with Orkla Finans (Fondsmegling) ASA (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 9, 1999).
- 1(4) Selling Agent Agreement with National Securities Corporation (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 1(5) Escrow Agreement with Continental Stock Transfer & Trust Company (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 1(6) Engagement Agreement with Sundal Collier & Co ASA dated August 13, 2001. (Incorporated herein by reference from Post-Effective Amendment No. 2 to Form S-1 Registration Statement, File No. 333-85116 filed on September 10, 2002).
- 2(1) Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated August 10, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).
- 2(2) Supplemental Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated November 3, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).
- 2(3) Supplemental Deed Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated May 29, 1996 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from September 30, 1997 Form 10-Q).
- 2(4) Memorandum of Agreement between Fielden Management Services

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Pty, Ltd., A.C.N. 005 506 123 and Fountain Oil Incorporated dated May 16, 1995 (Incorporated herein by reference from December 31, 1997 Form 10-K/A).

- 2(5) Amended and Restated Combination Agreement between Fountain Oil Incorporated and

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CanArgo Energy Inc. dated as of February 2, 1998 (Incorporated herein by reference from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).

- 2(6) Voting, Support and Exchange Trust Agreement (Incorporated herein by reference as Annex G from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).
- 3(1) Registrant's Certificate of Incorporation and amendments thereto (Incorporated herein by reference from July 15, 1998 Form 8-K).
- 3(2) Registrant's Bylaws (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- 4(1) Registration Rights Agreement between Registrant and JKK Nederland B.V. dated September 28, 2000, relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
- \*10(1) Form of Option Agreement for options granted to certain persons, including Directors (Incorporated herein by reference from August 31, 1994 Form 10-KSB, filed by Electromagnetic Oil Recovery, Inc., the Company's predecessor).
- \*10(2) Amended and Restated 1995 Long-Term Incentive Plan (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
- \*10(3) Amended and Restated CanArgo Energy Inc. Stock Option Plan (Incorporated herein by reference from September 30, 1998 Form 10-Q).
- 10(4) Agreement between Georgian American Oil Refinery Company and CanArgo Petroleum Products Ltd. dated September 26, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
- 10(5) Terrenex Acquisition Corporation Option regarding CanArgo (Nazvrevi) Limited (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
- 10(6) Production Sharing Contract between (1) Georgia and (2)

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Georgian Oil and JKK Navtobi Ltd. dated February 12, 1996 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on September 7, 1999).

- 10(7) Agreement on Financial Advisory Services between CanArgo Energy Corporation, Orkla Finans (Fondsmegling) A.S and Sundal Collier & Co. ASA dated December 8, 1999 (Incorporated herein by reference from December 28, 1999 Form 8-K).
  - 10(8) Form of Subscription Agreement (Incorporated herein by reference from December 28, 1999 Form 8-K).
  - 10(9) Agreement between CanArgo Energy Corporation and JKK Nederland BV dated January 19, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).
  - 10(10) Agreement between Ninotsminda Oil Company and AES Gardabani dated March 10, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).
  - 10(11) Term Sheet dated September 27, 2000 relating to sale of 15,660,916 shares of Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form 8-K).
  - 10(12) Form of Subscription Agreement relating to sale of 15,660,916 shares of the Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form 8-K).
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- 10(13) Subscription Agreement between Registrant and JKK Nederland B.V. dated September 15, 2000 relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
  - \*10(14) Management Services Agreement between CanArgo Energy Corporation and Vazon Energy Limited relating to the provisions of the services of Dr. David Robson dated June 29, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).
  - 10(15) Tenancy Agreement between CanArgo Energy Corporation and Grosvenor West End Properties dated September 8, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).
  - 10(16) Agreement between CanArgo Energy Corporation and Roger Brittain dated August 18, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
  - \*10(17) Employment Agreements between CanArgo Energy Corporation and Murray Chancellor dated September 22, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
  - \*10(18) Employment Agreements between CanArgo Energy Corporation

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and Anthony Potter dated October 1, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).

- 10(19) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and CanArgo Norio Limited dated December 12, 2000 (Incorporated herein by reference from December 31, 2000 Form 10-K).
- 10(20) Agreement between CanArgo Energy Corporation and Georgian British Oil Services Company dated November 10, 2000 relating to the purchase of 9.35% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).
- 10(21) Share Exchange Agreement between CanArgo Energy Corporation and Argonaut Oil and Gas Limited dated November 10, 2000, related to the purchase of 28.7% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).
- \*10(22) Employment Agreements between CanArgo Energy Corporation and Vincent McDonnell dated December 1, 2000 (Incorporated herein by reference from December 31, 2001 Form 10-K).
- 10(23) Agreement Number 1 dated March 20, 1998 on Joint Investment Production Activity for further development and further exploration of Bugruvativske Field (Incorporated herein by reference from June 30, 2001 Form 10-Q).
- 10(24) Crude Oil Sales Agreement dated August 13, 2002 (Incorporated herein by reference from June 30, 2002 Form 10-Q)
- 10(25) Covenant on terms and conditions of participation in investment activity under the Joint Investment Production Activity agreement dated of March 20, 1998, dated July 23, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 10(26) Stock sale purchase contract of IPEC between Lateral Vector Resources and Northern Industrial Development dated July 25, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 10(27) Amendments of and Additions to Joint Investment Production Activity agreement of March 20, 1998, dated August 8, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 10(28) Amendment of Clause 9.3.1 of Amendments of and Additions to the Joint Investment

Production Activity agreement of March 20, 1998, dated September 17, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)

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- 10(29) Stock sale purchase contract of IPEC between Lateral Vector Resources Inc. and Lystopad dated September 24, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 10(30) Stock sale purchase contract of IPEC between Lateral Vector Resources Inc. and Lyutyi dated September 24, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 10(31) Sale agreement of CanArgo Petroleum Products Limited between CanArgo Limited and Westrade Alliance LLC dated October 14, 2002. (Incorporated herein by reference from September 30, 2002 Form 10-Q)
- 21 List of Subsidiaries (Incorporated herein by reference from June 30, 2001 Form 10-Q)
- 25(1) Power of attorney of certain signatories (Incorporated herein by reference from December 17, 2002 Form S1/A)
- Additional Exhibits. In accordance with SEC Release No. 33-8212, Exhibits 99(1) and 99(2) are to be treated as "accompanying" this Report rather than "filed" as part of the Report.
- +99(1) Certification of Chief Executive Officer pursuant to 18.U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- +99(2) Certification of Chief Financial Officer pursuant to 18.U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

### (B) Reports on Form 8 K:

The following current reports on form 8-K were filed during the quarter ended March 31, 2003.

On January 30, 2003 CanArgo announced drilling had commenced on a new horizontal well N4H, targeting an existing producing reservoir in the Ninotsminda field in Georgia.

On February 28, 2003 CanArgo announced its preliminary results for the year ended December 31, 2002.

### SIGNATURES

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

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authorized.

CANARGO ENERGY CORPORATION

Date: May 14, 2003

By: /s/ Vincent McDonnell

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Vincent McDonnell  
Chief Financial Officer

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CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES  
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, David Robson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CanArgo Energy Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based

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on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Dr David Robson

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Dr David Robson  
Chairman, President and Chief Executive  
Officer

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CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES  
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002

I, Vincent McDonnell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CanArgo Energy Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Vincent McDonnell

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Vincent McDonnell  
Chief Financial Officer