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CANARGO ENERGY CORP
Form 10-K
March 24, 2003

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

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

FORM 10-K

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 0-9147

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

91-0881481
(I.R.S. Employer Identification No.)

C/O CANARGO SERVICES (UK) LIMITED
150 BUCKINGHAM PALACE ROAD, LONDON, ENGLAND SW1W 9TR
(Address of Principal Executive Offices)

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

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

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

(Title of Class)

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

YES X NO
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated herein by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: Common Stock, \$0.10 par value, 97,356,206 shares outstanding as of February 28, 2003.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

YES NO X
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The aggregate market value of the common equity held by non-affiliates of the registrant, as of February 28, 2003, was \$4,186,317.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I

QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

The United States Private Securities Litigation Reform Act of 1995 provides a "safe harbour" for certain forward looking statements. Such forward looking statements are based upon the current expectations of CanArgo Energy Corporation ("CanArgo") and speak only as of the date made. These forward looking statements involve risks, uncertainties and other factors. The factors discussed in Item 1. "Business - Risks Associated with CanArgo's Oil and Gas Activities", Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report on Form 10-K are among those factors that in some cases have affected CanArgo's historic results and could cause actual results in the future to differ significantly from the results anticipated in forward looking statements made in this Annual Report on Form 10-K, future filings by CanArgo with the Securities and Exchange Commission, in CanArgo's press releases and in oral statements made by authorized officers of CanArgo. When used in this Annual Report on Form 10-K, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "hope," "may" and similar expressions, as well as "will," "shall" and other indications of future tense, are intended to identify forward looking statements.

ITEM 1. BUSINESS

General Development of Business

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

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indicated by the context, the term CanArgo refers to CanArgo Energy Corporation and its consolidated subsidiaries, including Ninotsminda Oil Company.

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

As a result of this effort, CanArgo then known as Fountain Oil Incorporated entered into a business combination with CanArgo Oil & Gas Inc. Upon completion of the business combination in July 1998, CanArgo Oil & Gas Inc. became a subsidiary of CanArgo, the management of CanArgo Oil & Gas Inc. assumed the senior management positions in CanArgo, and CanArgo changed its name from Fountain Oil Incorporated to CanArgo Energy Corporation. At the time of the business combination, the principal operations and assets of CanArgo Oil & Gas Inc. were associated with the Ninotsminda oil field in the Republic of Georgia. Since completion of the business combination, a large portion of CanArgo's resources have been focused on the development of the producing areas of the Ninotsminda field and its Georgian exploration programme and in 1999, CanArgo wrote-down the fourth and last significant project that was being developed by Fountain Oil Incorporated prior to the business combination.

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

CanArgo's principal activities are oil and gas exploration, development and production of oil and gas. These activities are carried out under three production sharing arrangements (PSC's), these being the

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Ninotsminda, Manavi and West Rustavi Production Sharing Contract, the Nazvrevi and Block XIII Production Sharing Contract and the Norio (Block XI(c)) and North Kumisi Production Sharing Agreement. In late 2000 CanArgo also began to engage in oil and gas marketing and refining activities in Georgia. In November 2000, CanArgo acquired a 51% interest in Georgian American Oil Refinery which held a refurbished American refinery with a design capacity of approximately 4,000 barrels per day. Shortly thereafter, in December 2000, CanArgo expanded its interest in Georgia to include a 50% controlling interest in CanArgo Standard Oil Products with the objective of developing within Georgia a chain of retail petrol stations. In 2001 the refinery ceased operations, as it was no longer economic to refine product under the existing Georgian fiscal regime. Management continues to discuss possible fiscal changes with the Georgian government that may make this a viable business going forward. In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding with legal ownership being transferred upon receipt of final payment due in August 2003. Discontinued Operation activity and segment and geographical information for refining including revenue from external customers, operating

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profit (loss) and total assets is incorporated herein by reference from notes 17 and 18 to the consolidated financial statements.

EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

In Georgia CanArgo's exploration, development and production activities are carried out under three production sharing arrangements (PSC's), these being the Ninotsminda, Manavi and West Rustavi Production Sharing Contract, the Nazvrevi and Block XIII Production Sharing Contract both in which CanArgo owns a 100% interest through its subsidiaries Ninotsminda Oil Company Limited and CanArgo (Nazvrevi) Limited respectively, and the Norio (Block XI(c)) and North Kumisi Production Sharing Agreement which CanArgo entered into through its subsidiary CanArgo Norio Limited in which CanArgo holds a 64.2% interest. In November and December 2000 respectively, CanArgo expanded this activity with the acquisition of a controlling interest in a refinery and investment in a chain of petrol stations all located in and around Tbilisi, the capital of Georgia. In 2001 the refinery ceased operations, as it was no longer economic to refine product under the existing Georgian fiscal regime. Management continues to discuss possible fiscal changes with the Georgian government that may make this a viable business going forward. In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products, its investment in the chain of petrol stations, to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for \$4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. CanArgo continues to direct most of its efforts and resources to the development of the exploration programme and the Ninotsminda field.

[MAP SHOWING EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES]

NINOTSMINDA OIL FIELD

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

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

OTHER PROJECTS

CanArgo also has additional exploratory and developmental oil and gas properties and prospects in Georgia and Ukraine and owns interests in other Eastern European oil and gas projects. In Ukraine, CanArgo's activities are focused on the further development of the Stynawske oilfield, through the Boryslaw Oil Company joint venture, and the Bugruvativske oilfield, through a Joint Investment Production Activity (JIPA) agreement. CanArgo's principal product is

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crude oil, and the sale of crude oil and crude oil products is its principal source of revenue.

[MAP SHOWING HYDROCARBON PRODUCING REGIONS]

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BUSINESS STRUCTURE

CanArgo and its active subsidiaries are as follows:

[FLOWCHART SHOWING CANARGO AND ITS ACTIVE SUBSIDIARIES]

CanArgo's activities at the Ninotsminda oil field are conducted through Ninotsminda Oil Company, which is currently a 100% subsidiary. In November 1999, CanArgo had increased its percentage ownership of Ninotsminda Oil Company from 68.5% to 78.8% when JKK Oil & Gas plc chose not to subscribe for its pro rata portion of shares being offered to increase Ninotsminda Oil Company capital. In May 2000, CanArgo Energy Corporation reached an agreement with JKK Oil & Gas plc to acquire its 21.2% interest in Ninotsminda Oil Company for a direct equity interest in CanArgo. In July 2000, this transaction was completed and Ninotsminda Oil Company became a wholly owned subsidiary of CanArgo.

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

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

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

These priority rights represented 49%, 48%, 21% and 8% of gross production respectively. Of the remaining production, up to 50% will be allocated to Ninotsminda Oil Company for the recovery of the cumulative allowable capital, operating and other project costs associated with the Ninotsminda field, which Ninotsminda Oil Company initially pays. The balance of production is allocated on a 70/30 basis between Georgian Oil and Ninotsminda Oil Company respectively. While Ninotsminda Oil Company continues to have unrecovered costs, it will receive 65% of production in excess of the oil allocated to Georgian Oil on a priority. After recovery of its cumulative capital, operating and other allowable project costs, Ninotsminda Oil Company will receive 30% of production after Georgian Oil's priority allocation. Thus, while Ninotsminda Oil Company is responsible for all of the costs associated with development of the Ninotsminda

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field, it is only entitled to receive 30% of production after cost recovery and Georgian Oil's priority allocation. The allocation of a share of production to Georgian Oil, however, relieves Ninotsminda Oil Company of all obligations it would otherwise have to pay the Republic of Georgia for taxes and similar levies related to activities covered by the production sharing contract. Georgian Oil and Ninotsminda Oil Company take their respective shares of production in kind, and they market their oil independently.

Pursuant to the terms of CanArgo's PSC's in Georgia, including the Ninotsminda, Manavi and West Rustavi production sharing contract, a Georgian not-for-profit company must be appointed as field operator. Currently there are three such field operating companies, relating to CanArgo's three PSC's: Georgian British Oil Company Ninotsminda, Georgian British Oil Company Nazvrevi and Georgian British Oil Company Norio, each of which is 50% owned by a company within the CanArgo group with the remainder owned by Georgian Oil. The Ninotsminda operating entity, Georgian British Oil Company Ninotsminda, is 50% owned by Ninotsminda Oil Company. The second operating entity, Georgian British Oil Company Nazvrevi, is 50% owned CanArgo (Nazvrevi) Ltd. The third operating entity, Georgian British Oil Company Norio, is 50% owned by CanArgo Norio Ltd. The field operator provides the operating personnel and is responsible for day-to-day operations. CanArgo or a company within the CanArgo group pays the operating company's expenses associated with the development of the fields, and the operating company performs on a non-profit basis. Georgian British Oil Company Ninotsminda currently has 86 full time employees, and substantially all of its activities relate to the development of the Ninotsminda field. The use of such Georgian companies as field operator gives CanArgo less control of operations than it might have if it were conducting operations directly, although CanArgo has board control of these field operating companies.

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

NINOTSMINDA FIELD DEVELOPMENT

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

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Ninotsminda Oil Company's initial approach to Ninotsminda field development was to produce oil from one zone or underground formation, the Middle Eocene. This development included repairing and adding perforations to existing wells, obtaining additional seismic data and a limited drilling programme. The first exploration well in search of a new reservoir was completed in October 1997 and initially produced at the rate of 400 to 600 barrels of oil per day but is currently shut-in. A second exploration well was completed in October 1998 and has been producing at the rate of 203 barrels of oil per day.

A third oil exploration well commenced in October 1998 but drilling was

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suspended in December 1998 at a depth of 700 meters as a result of undependable electrical supply. Drilling of this well recommenced in July 2000 as a potential gas exploration well but in October 2000, CanArgo announced that as a result of difficult drilling conditions, the well could not be completed to the deeper Cretaceous zone as originally planned but rather would be tested in the newly discovered Sarmatian zone. While some work has been undertaken to identify the reserve and production potential of this and a previously identified Upper Eocene zone from which oil has been produced from one well, further work is required. Such information may, however, also open up new potential in the upper zones of other areas currently under license in Georgia. See "Other Georgian Licenses".

While most of the exploration and development of the Ninotsminda field prior to 2000 focused on oil, a layer of gas above the oil or gas cap was known to exist above the principal producing zone. In December 1999, Ninotsminda Oil Company began commercial production of this gas cap following regulatory approval from the Georgian government. This production was sold pursuant to a one year gas contract with AES - Telasi, a subsidiary of AES Corporation, for delivery to the Gardabani thermal power plant. Under terms of the gas contract, AES-Telasi had agreed to purchase all the gas produced by Ninotsminda Oil Company in priority to all other suppliers with no maximum or minimum volume. AES continued to purchase gas from Ninotsminda Oil Company on similar contractual terms during 2000 and into 2001. Gas deliveries to AES for 2002 declined significantly due to lower oil and gas production and the temporary shutdown by AES of its thermal power generating station following an accident at the facility. Although AES has now re-opened, CanArgo had not sold any further gas to AES since their demand for gas was too great for CanArgo to meet from production.

A gas exploration programme to explore and determine the future development potential of gas prospects in the Sub Middle Eocene on CanArgo's Ninotsminda field in Georgia was initiated under a binding Participation Agreement with AES Gardabani dated July 19, 2000. Under the agreement, AES Gardabani was to earn a 50% interest in identified prospects at the Sub Middle Eocene stratigraphic level (rock older than the Middle Eocene sequence) by funding two thirds of the cost of a three-well exploration programme. Under terms of the Participation Agreement, the exploration was to be implemented by CanArgo's existing operations unit in Georgia.

Ninotsminda Oil Company commenced the first and second wells of this three-well exploration programme in 2001. In January 2002, the first of these wells, N100, reached target depth and underwent testing to determine if hydrocarbons were present in the well and if present, the possible extent of the hydrocarbons. In January 2002, the initial planned testing programme on the N100 exploration oil discovery was completed and the production rates were deemed to be non-commercial at the initial stage. Drilling of the second well in the exploration programme, M11, began in June 2001 (see "Other fields and prospects under Ninotsminda Production Sharing Contract" below).

Prior to completion of the exploration programme as defined in the Participation Agreement ("the Agreement"), AES indicated in January 2002 that it wished to withdraw from the Agreement in order to focus on its core business. In 2002 the agreement with AES was terminated without AES earning any rights to any of the Ninotsminda field reservoirs. Under a separate Letter Agreement, if gas from the Sub Middle Eocene is discovered and produced, AES will be entitled to recover at the rate of 15% of future gas sales from the Sub Middle Eocene, net of operating costs, their funding under the Participation Agreement. AES also has an option to enter into a five year take or pay gas sales agreement for a quantity up to 200 million cubic meters per year at an initial contract price of \$46.00 per one thousand cubic meters. Gas purchased by AES would likely be supplied to the Gardabani thermal power plant.

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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 at the Norio field, 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 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. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

In January 2003, in an attempt to increase production at the Ninotsminda field and further improve working capital, drilling of a new horizontal well, NH4, commenced targeting an existing producing reservoir. Provided funds are available, immediate and near term development plans include the completion of testing of well N100 and the continued drilling of wells M11 and Norio MK72, two deep exploration wells. CanArgo has temporarily suspended further drilling of well M11 below its current casing point at 4,182 metres in order to fully review available technical data, and to estimate the cost to complete the well. Norio MK72, has been cased at a depth of 2,932 metres in the Lower Sarmatian. Farm-in partners are currently being sought to provide additional capital for completing these wells.

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

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

In January 2003, in an attempt to increase production at the Ninotsminda field, drilling of a new horizontal well N4H, commenced, targeting an existing producing reservoir.

OTHER FIELDS AND PROSPECTS UNDER NINOTSMINDA PRODUCTION SHARING CONTRACT

In addition to the Ninotsminda field, Ninotsminda Oil Company has under the 1996 production sharing contract rights to one other field, West Rustavi, and a number of currently identified prospects including Manavi. As well as the producing Middle Eocene horizon at Ninotsminda, the West Rustavi field has additional prospective horizons at the Cretaceous/Paleocene levels.

The West Rustavi field is located some 40 km southeast of Ninotsminda. Ten wells

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were drilled by Georgian Oil in the West Rustavi field area, two of which produced oil. One of the ten wells was drilled to the deeper Cretaceous/Paleocene horizon. This well was tested and produced at rates of 1 million cubic feet of gas and 3,500 barrels of water per day. Further geo-technical work is required on this horizon to determine its prospectivity and commerciality.

Drilling of the M11 well on the Manavi Cretaceous gas prospect, began in June 2001. CanArgo has temporarily suspended further drilling of well M11 below its current casing point at 4,182 metres in order to

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fully review available technical data, and secure funding to complete the well. Farm-in partners are currently being sought to provide additional capital for completing this well.

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

OIL AND GAS PRODUCTION

PRODUCTION HISTORY

The Ninotsminda field was discovered and initial development began in 1979. CanArgo is currently producing from the Ninotsminda field approximately 900 barrels of oil equivalent (BOE) per day, comprising approximately 755 barrels of oil per day and 145 BOE of gas per day (1 BOE = 6,000 cubic feet = 170 (m³) gas) from thirteen wells. Gross production from the Ninotsminda field for the past three years was as follows:

YEAR ENDED DECEMBER 31, -----	OIL - GROSS BARRELS -----
2002	292,289
2001	413,724
2000	478,999

Productive Wells and Acreage

The following table summarizes as of December 31, 2002 Ninotsminda Oil Company's number of productive oil and gas wells and Ninotsminda Oil Company's total developed acreage for the Ninotsminda field. Such information has been presented on a gross basis, representing the interest of Ninotsminda Oil Company, and on a net basis, representing the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company.

	GROSS		NET	
	----- NUMBER OF WELLS -----	----- ACREAGE -----	----- NUMBER OF WELLS -----	----- ACREAGE -----
Ninotsminda field	14	2,500	14	2,500

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On December 31, 2002, there were no productive wells or developed acreage on any of CanArgo's other Georgian properties, except for one gross well on the West Rustavi field which was shut-in at that date.

Reserves

The following table summarizes net hydrocarbon reserves for the Ninotsminda field. This information is derived from a report dated as of January 1, 2003 prepared by Ashton Jenkins Mann, independent petroleum consultants. This report is available for inspection at CanArgo's principal executive offices during regular business hours. The reserve information in the table below has also been filed with the Oslo Stock Exchange.

OIL RESERVES	OIL RESERVES - GROSS ----- (MILLION BARRELS) -----	PSC ENTITLEMENT VOLUMES (1) ----- (MILLION BARRELS) -----
Proved Developed	4.0	2.8
Proved Undeveloped	0.1	0.1
TOTAL PROVEN	----- 4.1 =====	----- 2.9 =====

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GAS RESERVES	GAS RESERVES - GROSS ----- (BILLION CUBIC FEET) -----	PSC ENTITLEMENT VOLUMES (1) ----- (BILLION CUBIC FEET) -----
Proved Developed	8.0	2.4
Proved Undeveloped	--	--
TOTAL PROVEN	----- 8.0 =====	----- 2.4 =====

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

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

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

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

Uncertainties exist in the interpretation and extrapolation of existing data for the purposes of projecting the ultimate production of oil from underground reservoirs and the corresponding future net cash flows associated with that production. The estimating process requires educated decisions relating to the evaluation of all available geological, engineering and economic data for each reservoir. The amount and timing of cost recovery is a function of oil and gas prices. The oil and gas price used in the report by Ashton Jenkins Mann as of January 1, 2003 were \$17.80 per barrel and \$1.29 per mcf respectively. Having considered the geological and engineering data in the interpretation process, the Company believes with reasonable certainty that the stated proven reserves represent the estimated quantities of oil and gas to be recoverable in future years under existing operating and economic conditions.

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

PROCESSING, SALES AND CUSTOMERS

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

The mixed oil, gas and water fluid produced from the Ninotsminda field wells flows into a two-phase separator located at the Ninotsminda field, where gas associated with the oil is separated. The oil and water mixture is then transported eleven kilometres either in a pipeline or by truck to Georgian Oil's central processing facility at Sartichala for further treatment. The gas is transported to Sartichala in a separate pipeline where some is used for fuel and the rest is piped 34 kilometres to Rustavi where it is delivered to the Rustavi industrial complex for sale to a number of customers.

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

Ninotsminda Oil Company sells its oil directly to local and international buyers. In 2002, Ninotsminda Oil Company sold its oil production to eight customers. Of these customers, four customers represented sales greater than 10% of oil revenue:

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CUSTOMER	PERCENT OF OIL REVENUE
Caspian Trading	28.4%
Sveti	26.4%
Crownhill	20.1%
Trafigura	19.9%

In 2001, Ninotsminda Oil Company sold its oil production to three customers.

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

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

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

(1) 51% owned by CanArgo effective November 2000

Sales to both the domestic and international markets are based on the average of a number of quotations for dated Brent Mediterranean with an appropriate discount for transportation and other charges. Sales in 2002 were at an average discount of \$5.09 to Brent.

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

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

OTHER GEORGIAN LICENSES

Nazvrevi/Block XIII

In February 1998, CanArgo entered into a second production sharing contract with Georgian Oil and the State of Georgia. This contract covers the Nazvrevi and Block XIII areas of East Georgia, a 2,008 square

kilometre exploration area adjacent to the Ninotsminda and West Rustavi fields and containing existing infrastructure. The agreement extends for twenty-five years. CanArgo is required to relinquish at five year intervals commencing in 2003 at least 25 percent of the area then covered by the production sharing contract, but not any portions being actively developed.

Under the production sharing contract, CanArgo pays all operating and capital costs. CanArgo first recovers its cumulative operating costs from production. After deducting production attributable to operating costs, 50% of the remaining production, considered on an annual basis, is applied to reimburse CanArgo for its cumulative capital costs. While cumulative capital costs remain unrecovered, the other 50% of remaining production is allocated on a 50/50 basis between Georgian Oil and CanArgo. After all cumulative capital costs have been recovered by CanArgo, remaining production after deduction of operating costs is allocated on a 70/30 basis between Georgian Oil and CanArgo respectively. Thus, while CanArgo is responsible for all of the costs associated with development of the Nazvrevi field, it is only entitled to receive 30% of production after cost recovery. The allocation of a share of production to Georgian Oil, however, relieves CanArgo of all obligations it would otherwise have to pay the Republic of Georgia for taxes and similar levies related to activities covered by the production sharing contract. Both Georgian Oil and CanArgo will take their respective shares of production under this production sharing contract in kind.

The first phase of the preliminary work programme under the Nazvrevi/Block XIII production sharing agreement involved primarily a seismic survey of a portion of the exploration area and the processing and interpretation of the data collected. The seismic survey has been completed at a cost of approximately \$1.5 million, and met the minimum obligatory work commitment under the contract. The Department for Protection of Mineral Resources and Mining has confirmed that CanArgo has met the requirements of the work programme defined in the production sharing agreements. As the Nazvrevi and Block XIII license is an exploration area and no discoveries have been made on this license, it is not possible to estimate the expenditures needed to discover and if discovered, produce commercial quantities of oil and gas.

Norio (Block XI(c)) and North Kumisi Blocks

In December 2000, CanArgo entered into a third PSC with the State of Georgia represented by Georgian Oil and the State Agency for Regulation of Oil and Gas Resources in Georgia. This agreement covers the Norio and North Kumisi blocks of East Georgia, a 1,542 square kilometre exploration area adjacent to the Ninotsminda, West Rustavi and Samgori fields. There are two existing oil fields on the Norio block, Norio and Satskhenisi which are relatively shallow fields and which have produced oil from the Miocene and Sarmatian sequences. The commercial terms of the production sharing agreement are similar to those of the Nazvrevi/Block XIII production sharing contract with the exception that after all cumulative capital costs have been recovered by CanArgo, remaining production after deduction of operating costs is allocated on a 60/40 basis between Georgian Oil and CanArgo respectively. Thus, while CanArgo is responsible for all of the costs associated with development of the Norio field, it is only entitled to receive 40% of production after cost recovery. CanArgo currently owns a 64.2% controlling interest in CanArgo Norio Limited with the remainder held by Georgian and other private investors.

The first phase of the preliminary work programme under the Norio and North Kumisi production sharing agreement involved primarily a seismic survey of a portion of the exploration area and the processing and interpretation of the data collected. The seismic survey has been completed, and the results of those studies have and will continue to be interpreted. In addition to the existing

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upper sequences, the potential of the blocks to produce from the Middle Eocene, Cretaceous and Upper Eocene are being assessed. The cost of the seismic programme was approximately \$1.5 million.

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

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In November 2002, CanArgo reached agreement with the other shareholders in CanArgo's subsidiary, CanArgo Norio Limited (Norio), on increasing CanArgo's interest in Norio. Under the agreement CanArgo's interest increased from 50% to 64.2% in Norio and its existing Norio and North Kumisi production sharing agreement.

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

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

Norio Block XI(G) (Tbilisi) and Block XI(H) (Rustavi)

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

REFINING AND OTHER ACTIVITIES

CanArgo also engages in oil and gas, refining and other activities in Georgia. Segment and geographical information including revenue from continuing operations from external customers, operating profit (loss) from continuing operations and total assets is incorporated herein by reference from note 18 to the consolidated financial statements.

Georgian American Oil Refinery

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

The refinery, which utilizes primarily refurbished American equipment, began operations in July 1998 and has a potential design capacity of approximately 4,000 barrels per day. Operating as a straight-run distillation unit it can potentially produce naphtha, diesel, fuel oil and kerosene. Further product expansion is possible with the addition of additives and or a catalytic reformer.

For much of 2001 and to date, the refinery has not been operating. Since its acquisition, sales from the refinery have been negatively impacted by the imposition of restrictions and subsequent excise tax on feedstock and refined products. Although in April 2001, new legislation addressing indigenous refining activities was passed by the Republic of Georgia that removed or reduced excise taxes on feedstock and refined product, the refinery has since experienced unexpected product quality concerns which has effectively curtailed the enhancement of the basic product stream into gasoline. As a result, the refinery can

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only produce straight distillation products such as naphtha, diesel and mazut and not high octane gasoline as required by petrol stations. Due to the presence of excise tax on naphtha, there is limited economic demand for the product in Georgia, either as a feedstock for a separate refining company or for the blending with higher octane gasoline to produce "normal" grade gasoline for the local market.

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

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

Drilling Rigs and Associated Equipment

CanArgo owns several items of drilling equipment, and other related machinery which are primarily for use in its Georgian operations. These include three drilling rigs, pumping equipment and ancillary machinery. In addition CanArgo

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owns a mobile 3 megawatt dual fuel power plant. The rigs and related equipment are used in CanArgo's Georgian operations, and from time to time have also been leased out to other operators on a service basis. In January 2002, CanArgo established a well services subsidiary, which will bid in local tenders for drilling contracts. In 2002, a plan to sell the 3 megawatt dual fuel power plant has been agreed and this asset is classified in "Assets held for sale" for all periods presented.

OTHER EASTERN EUROPEAN PROJECTS

Stynawske Field, Western Region, Ukraine

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

Under the terms of the license Boryslaw Oil Company holds in the Stynawske field, field operations were to be transferred to Boryslaw Oil Company effective January 1, 1999. While negotiations continued on the transfer of the field, by the fall of 1999 it was apparent from the length and difficulty of the negotiations that significant uncertainty existed as to CanArgo's ability to raise funds for the project or enter into a satisfactory farm-out agreement on a timely basis. As a result, CanArgo recorded in the year ended December 31, 1999 an impairment charge of \$5,459,793 against its investment in and advances to Boryslaw Oil Company. CanArgo's investment in the Stynawske field was the fourth and last significant project that was being developed by Fountain Oil Incorporated prior to the business combination between Fountain Oil Incorporated and CanArgo Oil & Gas Inc.

In December 2000, CanArgo reached agreement with Ukrnafta on certain commercial arrangements and for the transfer of field operations to Boryslaw Oil Company. To commence a three well workover programme (the Pilot Development Scheme), a \$500,000 credit facility was established for Boryslaw Oil Company in 2001 and \$550,000 advanced as a deposit against the facility. In 2001 an agreement was reached to

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undertake a limited investment and development program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which \$360,000 was repaid by December 31, 2002 and has been fully paid in 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 an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license. This could place Boryslaw Oil Company's rights to the Stynawske field at risk.

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The following table summarizes net hydrocarbon reserves for the Pilot Development Scheme for the Stynawske field. This information is derived from a report as of January 1, 2003 prepared by Ashton Jenkins Mann, independent petroleum consultants. This report is available for inspection at CanArgo's principal executive offices during regular business hours. The reserve information in the table below has also been filed with the Oslo Stock Exchange.

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

GAS RESERVES	GAS RESERVES - GROSS	CANARGO SHARE ----- (45%) -----
	----- (BILLION CUBIC FEET) -----	----- (BILLION CUBIC FEET) -----
Proved Developed	4.9	2.2
Proved Undeveloped	--	--
	-----	-----
TOTAL PROVEN	4.9	2.2
	=====	=====

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

The oil and gas price used in the report by Ashton Jenkins Mann as of January 1, 2003 was \$15.64 per barrel and \$0.64 per mcf respectively. No assurance can be given that the projections included in the report by Ashton Jenkins Mann will be realized. The evaluation by Ashton Jenkins Mann represents the efforts of Ashton Jenkins Mann to predict the performance of the oil recovery project using their expertise and the available data at the effective date of their report.

CanArgo has contingent obligations and may incur additional obligations, absolute and contingent, with respect to acquiring and developing oil and gas properties and ventures. At December 31, 2002, 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.

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Bugruvativske Field, Ukraine

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

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

Both the Bugruvativske field and the Stynawske field in Western Ukraine are in the early stage of evaluation and development and are themselves relatively new to CanArgo and additional financing will be required to fully develop and exploit these fields.

Potential Caspian Exploration Project

In May 1998, CanArgo led a consortium which submitted a bid in a tender for two large exploration blocks in the Caspian Sea, located off the shore of the autonomous Russian republic of Dagestan. The consortium was the successful bidder in the tender and was awarded the right to negotiate licenses for the blocks. Following negotiations, licenses were issued in February 1999 to a majority-owned subsidiary of CanArgo. During 1999 CanArgo concluded that it did not have the resources to progress this project. Accordingly, in November 1999, CanArgo reduced its interest to a 9.5% in exchange for \$250,000 credit to CanArgo should additional financing or an equity partner be found for the project. Subsequent to this, a restructuring of interests in the project took place with CanArgo increasing its interest slightly to 10%, and with Rosneft, the Russian State owned oil company, becoming the majority owner of the project with 75.1%. Seismic was acquired as part of this restructuring, and future plans include interpretation of this data and possible drilling.

Potential Syrian Exploration Project

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In January 2003, CanArgo won exclusive rights to negotiate a Production Sharing Contract (PSC) for Block XIX in southern Syria. The block comprises 6,000 km² of under-explored acreage in the Sirhan Basin in the south of the country, bordering Jordan. There are two oil and gas plays in the block, one Paleozoic and one Mesozoic; these plays have been successfully exploited in both western Iraq and more recently in neighbouring north-eastern Jordan.

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DISCONTINUED OPERATIONS

CanArgo Standard Oil Products

CanArgo originally moved into the retail gasoline sector in Georgia in April 2000 with the formation of CanArgo Standard Oil Products. The original objective of CanArgo was to create a premium chain of petroleum product outlets.

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

In September 2002, CanArgo approved a plan to sell CanArgo Standard Oil Products to finance Georgian and Ukrainian development projects and in October 2002, CanArgo agreed to sell its 50% holding to Westrade Alliance LLC, an unaffiliated company, for \$4 million in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due in August 2003. Discontinued Operation activity is incorporated herein by reference from note 17 to the consolidated financial statements.

As at 31 December, 2002, CanArgo Standard Oil Products had a total of 23 licences/sites in its portfolio with 19 sites in operation.

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

RISKS ASSOCIATED WITH CANARGO'S ACTIVITIES

CanArgo's ability to remain a going concern

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

In order to preserve available cash resources while still maintaining essential field operations and development activities in Georgia, a significant cost reduction plan was implemented with both direct project and general and administrative costs being reduced. These reductions and the receipt of the final \$3 million payment from the agreed sale of CanArgo's interest in its

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retail operation CanArgo Standard Oil Products (CSOP) (explained below), 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. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

The financial statements have been prepared on a going concern basis, which assumes the additional funding and/or proceeds from the sale of non-core assets is received. If this additional finance is not received, in particular the receipt of the final \$3 million payment from the sale of CSOP, or receipt of an equivalent amount, adjustments may have to be made to reduce the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

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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 of which \$1 million has been received to date as a non-refundable deposit. Legal ownership will transfer upon receipt of the final payment of \$3 million due in August 2003.

Whilst the directors presently cannot be certain as to the outcome of the matters mentioned above, they believe that it is appropriate for the financial statements to be prepared on a going concern basis.

Development of the oil and gas properties and ventures in which CanArgo has interests involves multi-year efforts and substantial cash expenditures. Full development of these properties will require the availability of substantial funds from internal and/or external sources. CanArgo believes that it will be able to generate funds from 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.

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

We have directed substantially all of our efforts and most of our available funds to the development of the Ninotsminda oil field in the Republic of Georgia, exploration in that area and some ancillary activities closely related to the Ninotsminda field project. This decision is based on management's assessment of the promise of the Ninotsminda field area. However, our focus on the Ninotsminda field has over the past several years resulted in overall losses for CanArgo and CanArgo has yet to be profitable. We cannot assure investors that the exploration and development plans for the Ninotsminda field will be successful. For example, the Ninotsminda field may not produce sufficient quantities of oil and gas to justify the investment we have made and are planning to make in the field, and we may not be able to produce the oil and gas at a sufficiently low cost or to market the oil and gas produced at a sufficiently high price to generate a positive cash flow and a profit. Ninotsminda Oil Company has also entered into certain supply and purchase agreements for natural gas production from the Ninotsminda field. Such agreements may benefit us, but may in the future also limit our ability to sell associated natural gas at then market prices. Our Georgian exploration programme is an important factor for future success, and this programme may not be successful, as it carries substantial technical risk.

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Minimum Investment Requirements in Ukraine Have Not Been Met

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

In 2001 an agreement was reached to undertake a limited investment and development program by June 2002 in order for Boryslaw Oil Company, a company in which CanArgo has a 45% ownership interest, to retain the field licence including the drilling of one new well. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's

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advances to Boryslaw Oil Company has also been agreed of which \$360,000 was repaid at December 31, 2002 and has been fully paid in 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 an extension to the current licence cannot be obtained, it may be in breach of obligations it has with regard to the field license. This could place Boryslaw Oil Company's rights to the Stynawske field at risk.

Ukraine Projects in Early Stage of Evaluation and Development

The Bugruvativske field together with the Stynawske field in Western Ukraine, are both in the early stage of evaluation and development and are themselves relatively new to us.

Write Off of Unsuccessful Properties and Projects

In order to realize the carrying value of our oil and gas properties and ventures, we must produce oil and gas in sufficient quantities and then sell such oil and gas at sufficient prices to produce a profit. We have a number of unevaluated oil and gas properties. The risks associated with successfully developing unevaluated oil and gas properties are even greater than those associated with successfully continuing development of producing oil and gas

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properties, since the existence and extent of commercial quantities of oil and gas in unevaluated properties have not been established. In 2002, we recorded an impairment charge of \$1.6 million, and in 2001, we recorded an impairment charge of \$7.3 million following application of the full cost ceiling limitation to capitalized oil and gas property costs. The impairments are as a result of a decline in Brent oil prices at December 31, 2001, lower reserve quantities following production declines in 2001 and reduced development plans in 2002. During 1997, we recorded impairment charges totalling \$19.4 million relating to three unsuccessful ventures and in 1999, recorded impairment charges totalling \$5.5 million relating to a fourth venture. We could be required in the future to write off our investments in additional projects, including the Ninotsminda field project, if such projects prove to be unsuccessful.

Possible Inability to Finance Present Oil and Gas Projects

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

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

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

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

It will take many years and substantial cash expenditures to develop fully our oil and gas properties. We generally have the principal responsibility to provide financing for our oil and gas properties and ventures. Accordingly, we need to raise additional funds from outside sources in order to pay for project development costs beyond those currently budgeted through 2003. We may not be able to obtain that additional financing. If adequate funds are not available, we will be required to scale back or even suspend our

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operations, or such funds may only be available on commercially unattractive terms. The carrying value of the Ninotsminda and Bugruvativske fields may not be realized unless additional capital expenditures are incurred to develop the fields. Furthermore, additional funds will be required to pursue exploration activities on its existing undeveloped properties. While expected to be substantial, without further exploration work and evaluation the amount of funds needed to fully develop all of our oil and gas properties cannot at present, be quantified.

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

Our exploration, development and production activities are subject to a number of factors and risks, many of which may be beyond our control. First, we must successfully identify commercial quantities of oil and gas. The development of

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

- o unexpected or unusual geological conditions;
- o the recoverability of the oil and gas on an economic basis;
- o the availability of infrastructure and personnel to support operations;
- o local and global oil prices; and
- o government regulation and legal uncertainties.

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

- o labour disputes;
- o natural phenomena, such as bad weather and earthquakes;
- o operating hazards, such as fires, explosions, blow-outs, pipe failures and casing collapses; and
- o environmental hazards, such as oil spills, gas leaks, ruptures and discharges of toxic gases.

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

Risk of Political Instability with Respect to Foreign Operations

Our principal oil and gas properties and activities are in the Republic of Georgia, Ukraine and Russia, all of which are located in Eastern Europe. In addition, our refinery and all of our petrol stations are located in and around Tbilisi, Georgia. Operation and development of these assets is subject to a number of conditions endemic to Eastern European countries, including political instability. The present governmental arrangements in Eastern Europe and countries of the former Soviet Union in which we operate were established relatively recently, when they replaced Communist regimes. If they fail to maintain the support of their citizens, these governments could themselves be replaced by other institutions, including a possible reversion to totalitarian forms of government. Our operations typically involve joint ventures or other participatory arrangements with the national government or state-owned companies.

The production sharing contract covering the Ninotsminda oil field and the Joint Investment Production Activity agreement covering the Bugruvativske oil field are examples of such arrangements. As a result of such dependency on government participants, our operations could be adversely affected by political instability, changes in government institutions, personnel, policies or legislation, or shifts in political power. There is also the risk that governments could seek to nationalize, expropriate or otherwise take over our oil and gas properties. We are not insured against such political risks because management deems the premium costs of such insurance to be currently prohibitively expensive.

Risk of Social, Economic and Legal Instability

The political institutions in Eastern Europe and countries of the former Soviet Union have recently become more fragmented, and the economic institutions of Eastern European countries have recently converted to a

market economy from a planned economy. New laws have recently been introduced, and the legal and regulatory regimes in such regions are often vague, containing

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

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

In early 2002, the Georgian government requested assistance from the United States to combat terrorism in the Pankisi Gorge, a region of Georgia bordering the separatist Chechnya region of Russia. Social, economic and legal instability have accompanied these changes due to many factors which include:

- o low standards of living;
- o high unemployment;
- o undeveloped and constantly changing legal and social institutions; and
- o conflicts within and with neighbouring countries.

This instability can make continued operations difficult or impossible.

Inadequate or Deteriorating Infrastructure in Eastern Europe

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

Currency Risks in Eastern Europe

Payment for oil and gas products sold in Eastern European countries may be in local currencies. Although we currently sell our oil principally for U.S. dollars, we may not be able to continue to demand payment in hard currencies. Although most Eastern European currencies are presently convertible into U.S. dollars, there is no assurance that convertibility will continue. Even if currencies are convertible, the rate at which they convert into U.S. dollars is subject to fluctuation. In addition, the ability to transfer currencies into or out of Eastern European countries may be restricted or limited in the future.

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

Tax Risks in Eastern Europe

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

Conflicting Interests with our Partners

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Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have objectives and interests that may not coincide with ours and may conflict with our interests. Unless we are able to compromise these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated.

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

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Governmental Registration

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

Changes in the Market Price of Oil and Gas

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

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

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

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from \$19.29 per barrel at December 31, 2001 to \$31.98 per barrel at December 31, 2002. CanArgo may also not benefit from continued increases in oil prices as have occurred in the first quarter of 2003 as the market for the levels of crude oil produced in Georgia by Ninotsminda Oil Company can in such an environment be relatively inelastic and contract prices are often set at a specified price determined with reference to Brent when the contract is entered into or over a short period when the crude oil is delivered.

Oil and Gas Production Could Vary Significantly From Reserve Estimates

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

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

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

- o additional development activity;
- o evolving production history; and
- o changes in production costs, market prices and economic conditions.

As a result, the actual amount, cost and rate of production of oil and gas reserves and the revenues derived from sale of the oil and gas produced in the future will vary from those anticipated in the most recent report on the oil and gas reserves prepared by Ashton Jenkins Mann as of January 1, 2003. The magnitude of those variations may be material.

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

Oil and Gas Operations are Subject to Extensive Governmental Regulation

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

- o exploration;
- o development;
- o production;
- o refining;
- o marketing;
- o transportation;
- o occupational health and safety;
- o labour standards; and
- o environmental matters.

We expect the trend towards more burdensome regulation of our business to result in increased costs and operational delays. This trend is particularly applicable

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in developing economies, such as those in Eastern Europe where we have our principal operations. In these countries, the evolution towards a more developed economy is often accompanied by a move towards the more burdensome regulations that typically exist in more developed economies.

Competition

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

Operations are Dependent on Chairman of the Board and Chief Executive

Dr. David Robson, the Chairman of the Board and Chief Executive Officer of CanArgo, is our executive who has the most experience in the oil and gas industry and who has the most extensive business

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relationships in Eastern Europe. Our business and operations could be significantly harmed if Dr. Robson were to leave us or become unavailable because of illness or death. Dr. Robson through his company, Vazon Energy Limited, has signed a comprehensive Management Services Agreement with a two-year non competition clause effective from the date of termination of the agreement. The agreement can be terminated by giving six months notice from either side. We do not carry key employee insurance on any of our employees.

Employees

As of December 31, 2002, CanArgo had 248 full time employees. Of its full time employees, the entity acting as operator of the Ninotsminda oil field for Ninotsminda Oil Company has 86 full time employees, and substantially all of that company's activities relate to the production and development of the Ninotsminda field. CanArgo Standard Oil Products has 145 full time employees at its office and petrol stations.

ITEM 2. PROPERTIES

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

The refinery owned by CanArgo's subsidiary Georgian American Oil Refinery, is located next to Georgian Oil's central processing facility at Sartichala, Georgia.

PRODUCTIVE WELLS AND ACREAGE

Productive Wells and Acreage

The following table summarizes as of December 31, 2002 Ninotsminda Oil Company's number of productive oil and gas wells and Ninotsminda Oil Company's total developed acreage for the Ninotsminda field. Such information has been presented on a gross basis, representing the interest of Ninotsminda Oil Company, and on a net basis, representing the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company.

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	GROSS			NET		
	NUMBER OF WELLS	ACREAGE	SQUARE KILOMETRES	NUMBER OF WELLS	ACREAGE	SQUARE KILOMETRES
Ninotsminda field	14	2,500	10	14	2,500	10

On December 31, 2002, there were no productive wells or developed acreage on any of CanArgo's other Georgian properties, except for one well on the West Rustavi field which was shut-in at that date.

Undeveloped Acreage

The following table summarizes the gross and net undeveloped acreage held under the Ninotsminda, Nazvrevi/Block XIII and Norio/North Kumisi production sharing contracts as of December 31, 2002. The information regarding net acreage represents the interest of CanArgo based on its 100% interest in Ninotsminda Oil Company and the subsidiary holding the Nazvrevi/Block XIII contract and its current 50% interest in the subsidiary holding the Norio/North Kumisi contract.

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

CanArgo leases office space in London, England; Guernsey, Channel Islands; Calgary, Alberta; Tbilisi, Republic of Georgia and Kiev, Ukraine. The leases have remaining terms varying from three months to seven years and six months and annual rental charges ranging from \$16,000 to \$213,000.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2002 there were no legal proceedings pending involving CanArgo which, if adversely decided, would have a material adverse effect on CanArgo's financial position or business.

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

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No matters were submitted to a vote of CanArgo's security holders during the fourth quarter of the year ended December 31, 2002.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On March 30, 1999, CanArgo's common stock commenced trading on the OTC Bulletin Board after trading from April 6, 1995 through March 29, 1999 on the NASDAQ National Market System under the symbol "GUSH". The common stock was delisted from the NASDAQ Stock Market following the failure to meet Nasdaq's continued listing requirement that the bid price for a listed security be at least \$1.00 per share. CanArgo's common stock is also listed on the Oslo Stock Exchange and has traded there under the symbol "CNR" since May 1995. As a result of the shift in the principal domestic market for CanArgo common stock from the NASDAQ National Market System to the OTC Bulletin Board, stockholders may:

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

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

The following table sets forth the high and low sales prices of the common stock on the Oslo Stock Exchange, and the high and low bid prices on the NASDAQ OTC Bulletin Board for the periods indicated. Average daily trading volume on these markets during these periods is also provided. OTC Bulletin Board data is provided by the NASDAQ Trading and Market Services and/or published financial sources and Oslo Stock Exchange data is derived from published financial sources. The over-the-counter quotations reflect inter-dealer prices, without retail markup, mark-down or commissions, and may not represent actual transactions. Sales prices on the Oslo Stock Exchange were converted from Norwegian kroner into United States dollars on the basis of the daily exchange rate for buying United States dollars with Norwegian kroner announced by the central bank of Norway. Prices in Norwegian kroner are denominated in "NOK".

NASDAQ/OTCBB			
HIGH	LOW	AVERAGE DAILY VOLUME	HIGH
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FISCAL QUARTER ENDED				
March 31, 2000	1.00	0.63	95,167	0.97
June 30, 2000	1.45	0.69	103,033	1.57
September 30, 2000	1.66	1.03	69,800	1.78
December 31, 2000	1.38	0.75	24,500	1.45
March 31, 2001	1.19	0.75	12,933	1.32
June 30, 2001	0.87	0.50	4,467	0.86
September 30, 2001	0.50	0.24	20,923	0.56
December 31, 2001	0.43	0.24	12,757	0.49
March 31, 2002	0.36	0.26	32,697	0.36
June 30, 2002	0.38	0.19	3,508	0.32
September 30, 2002	0.20	0.05	9,156	0.20
December 31, 2002	0.15	0.04	29,404	0.08

At February 28, 2003, the closing price of our common stock on the OTC Bulletin Board and Oslo Stock Exchange was \$0.040 and \$0.043 respectively.

On February 28, 2003 the number of holders of record of our common stock was approximately 8,150. We have not paid any cash dividends on our common stock. We currently intend to retain future earnings, if

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

On February 12, 2002, CanArgo completed an offering of 5,210,000 shares of common stock at Norwegian Kroner 2.95 per share (approximately US\$0.34 per share) to a financial institution and qualified purchasers for gross proceeds of approximately \$1,762,000 in transactions intended to qualify for an exemption from registration under the Securities Act of 1933 afforded by Regulation S promulgated thereunder. ABG Sundal Collier ASA acted as placement agent for this transaction. The placement agent received a commission of 5.75% of the gross proceeds of the placement. Proceeds from the placement of approximately US\$1.5 million were used for working capital purposes. In January 2003, a registration statement on Form S-1 registering resale of the common shares issued in the private placement under the Securities Act was declared effective by the United States Securities and Exchange Commission.

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

On January 24, 2002, CanArgo announced a redemption of all the outstanding Exchangeable Shares issued by our subsidiary CanArgo Oil & Gas, Inc., which redemption was completed on May 31, 2002 in exchange for the issuance of an

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aggregate of 148,826 shares of Common Stock, in accordance with the terms of such Exchangeable Shares.

ITEM 6. SELECTED FINANCIAL DATA

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

The following data reflect the historical results of operations and selected balance sheet items of CanArgo and should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" herein.

Reported in \$000's except
for per common share amounts

YEAR ENDED
DECEMBER 31,

	2002	2001	2000	1999	1998
	-----	-----	-----	-----	-----

FINANCIAL PERFORMANCE

Total revenue from continuing operations	5,576	7,171	7,010	2,783	821
Operating income (loss) from continuing operations	(4,971)	(16,107)	(2,401)	(8,119)	(6,357)

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Reported in \$000's except
for per common share amounts

YEAR ENDED
DECEMBER 31,

	2002	2001	2000	1999	1998
	-----	-----	-----	-----	-----

Other income (expense) and Minority Interest in income (loss) of consolidated subsidiaries	(528)	2,545	258	(354)	247
Net income (loss) from continuing operations	(5,499)	(13,562)	(2,143)	(8,473)	(6,110)
Net income (loss) from discontinued operations, net of taxes and minority interest(1)	171	344	(8)	--	--
Net income (loss)	(5,328)	(13,218)	(2,151)	(8,473)	(6,110)

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Net loss per common share - basic and diluted from continuing operations	(0.06)	(0.16)	(0.04)	(0.32)	(0.39)
Net loss per common share - basic and diluted from discontinued operations	(0.00)	(0.00)	(0.00)	--	--
Net loss per common share - basic and diluted	(0.06)	(0.16)	(0.04)	(0.32)	(0.39)
Cash generated by (used in) operations	8	(11,829)	7,881	(1,210)	(14,718)
Working capital	5,585	14,590	23,315	2,729	1,366
Total assets	70,736	70,312	82,849	43,948	46,618
Minority shareholder advances	--	450	--	--	--
Stockholders' equity	62,105	65,800	72,426	37,863	40,031
Cash dividends per common share	--	--	--	--	--

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

THE FOLLOWING INFORMATION CONTAINS FORWARD-LOOKING INFORMATION. See "Qualifying Statement With Respect To Forward-Looking Information" above and "Forward Looking Statements" below.

LIQUIDITY AND CAPITAL RESOURCES

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

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On February 12, 2002, CanArgo completed a private placement of 5,210,000 common shares at NOK 2.95 per share (approximately US\$0.34 per share) an institution and another qualified purchaser for gross proceeds of approximately \$1,762,000.

As of December 31, 2002, CanArgo had working capital of \$5,585,000, compared to working capital of \$14,590,000 as of December 31, 2001. The \$9,005,000 decrease in working capital from December 31, 2001 to December 31, 2002 is principally due to a reduction in cash and prepayments related to capital expenditures on the Ninotsminda, Manavi and Norio projects.

As a result of 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 at the Norio field, 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 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. Should such funding not be forthcoming and CanArgo be unable to sell some or all of its non-core assets, further cost reductions will be required in order for CanArgo to remain a going concern.

In January 2003, in an attempt to increase production at the Ninotsminda field and further improve working capital, drilling of a new horizontal well, NH4, commenced targeting an existing producing reservoir. Provided funds are available, immediate and near term development plans include the completion of testing of well N100 and the continued drilling of wells M11 and Norio MK72, two deep exploration wells. CanArgo has temporarily suspended further drilling of well M11 below its current casing point at 4,182 metres in order to fully review available technical data, and to estimate the cost to complete the well. Norio MK72, has been cased at a depth of 2,932 metres in the Lower Sarmatian. Farm-in partners are currently being sought to provide additional capital for completing these wells.

In 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

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match up to the 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.

Initial costs in respect of CanArgo's investment in the Bugruvativske 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 program by June 2002 in respect of Boryslaw Oil Company to increase production and to meet certain work commitments under the Stynawske field licence. These obligations have not been fully met, however, Boryslaw Oil Company is seeking modifications to the licence agreement to allow a proper assessment of the workovers and development plans completed to date. A repayment schedule of CanArgo's advances to Boryslaw Oil Company has also been agreed of which \$360,000 was repaid at December 31, 2002 and has been fully paid in 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 Bugruvativske and Stynawske fields and preparation of a development program with Ukrnafta continues. Based on its efforts to date and, should funding be available, CanArgo plans to significantly increase production from these fields by investing in both remedial workover activity and potential infill drilling, horizontal drilling and pressure maintenance utilising appropriate technologies.

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

- 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

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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 be

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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.

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;
- 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.

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STATEMENT OF CASH FLOWS

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

Cash and cash equivalents decreased \$4,293,000 from \$5,891,000 at December 31, 2001 to \$1,598,000 at December 31, 2002. The decrease was primarily due to the cost of the Manavi and Norio exploration programmes in Georgia.

Operating Activities

Net cash generated from operations in 2002 was \$1,619,000 compared to cash used in operations in 2002 of \$11,829,000 in 2001. Cash used in operating activities decreased primarily due to the use in 2001 of cash received from the joint venture partner, AES Gardabani, with respect to its participation in a three well exploration; changes in accounts receivable in 2002 and 2001 related to rental income due from the lease of one of CanArgo's drilling rigs to a third party, and amounts due from AES Gardabani relating to the termination of their participation in the three well exploration programme in Georgia; changes in accounts payable in 2001 due to payments of liabilities at December 31, 2000 relating to the 2000 Norio seismic programme; and an increase in deferred revenue in 2002 from a prepayment on the sale of crude oil, and proceeds from the sale of CanArgo's 50% holding in CanArgo Standard Oil Products.

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Accounts receivable decreased from \$2,007,000 at December 31, 2001 to \$306,000 at December 31, 2002. The decrease is primarily a result of the receipt of \$1,000,000 from AES relating to the termination of AES's participation in a three well exploration programme, and an increase in allowance for a doubtful debt of \$275,000, generated from gas sales to the Rustavi Plant in Georgia in 2000 and the receipt of payment for services from a third party relating to the use of one of CanArgo's drilling rigs.

Inventory decreased from \$406,000 at December 31, 2001 to \$186,000 at December 31, 2002 primarily as result of the sale of oil by Ninotsminda Oil Company from storage. Approximately 33,000 barrels of oil were held in storage by Ninotsminda Oil Company at December 31, 2002 for sale to the Georgian domestic, regional or international market.

Prepayments decreased from \$2,236,000 at December 31, 2001 to \$212,000 at December 31, 2002 as a result of receipt of materials and services related to CanArgo's exploration activities transferred to capital assets in the period. This decrease 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 \$1,741,000 to \$8,096,000 at December 31, 2002 from \$6,355,000 at December 31, 2001 primarily due to activity at CanArgo Standard Oil Products relating to the addition of new petrol stations in Georgia.

Other current assets increased from \$162,000 at December 31, 2001 to \$176,000 at December 31, 2002 as a result of a deposit to secure the rental of CanArgo's representative office in Ukraine.

Accounts payable increased to \$872,000 at December 31, 2002 from \$ 828,000 at December 31, 2001 primarily due to an absolute increase in corporate payables.

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Deferred revenue of \$1,500,000 at December 31, 2002 relates to a 12 month crude oil sales agreement for Ninotsminda Oil Company to sell its monthly share of oil produced under the Ninotsminda production sharing contract. As security over payment the buyer provided \$1 million to be repaid by Ninotsminda Oil Company at the end of the twelve month period through the delivery of crude oil equal to the value of the security; and \$500,000 advanced proceeds received for the sales of CanArgo Standard Oil Products.

Accrued liabilities decreased to \$204,000 at December 31, 2002 from \$400,000 at December 31, 2001 primarily due to a reduction in accrued professional fees mainly in respect of share capital issues, and liabilities relating to the winding up of East Georgian Pipeline Company.

Liabilities held for sale, in respect of discontinued operations, increased by \$1,175,000 to \$2,352,000 at December 31, 2002 from \$1,177,000 at December 31, 2001 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.

Investing Activities

Net cash used in investing activities decreased to \$8,692,000 in the year ended December 31, 2002 from \$17,189,000 in the year ended December 31, 2001. The decrease in cash used in investing activities was primarily due to capital expenditures related to the Ninotsminda field and the 2001 acquisition of LVR.

Capital assets, net increased from \$52,535,000 at December 31, 2001 to \$59,703,000 at December 31, 2002, primarily as a result of investment of \$10,996,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda and Norio production sharing contracts. During 2002, CanArgo wrote down its oil and gas properties in the Ninotsminda field by an aggregate \$1,600,000 on application of the full cost ceiling test as a result of lower reserve quantities following production declines in 2002 and reduced development plans. If oil prices or production levels further decline, CanArgo may experience additional impairment of this property.

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Investments in and advances to oil and gas and other ventures, net decreased from \$719,000 at December 31, 2001 to \$459,000 at December 31, 2002. The decrease reflects repayments by Boryslaw Oil Company of CanArgo's advances in 2002 partially offset by an increase in equity income related to CanArgo's investment in Boryslaw Oil Company.

Financing Activities

Cash from financing activities decreased to \$3,175,000 for the year ended December 31, 2002 from \$8,974,000 for the year ended December 31, 2001 due primarily to proceeds from the sale of common stock issued and received in 2001.

On February 12, 2002, CanArgo completed an offering of 5,210,000 common shares at NOK 2.95 per share (approximately US\$0.34 per share) to certain institutions and qualified purchasers for gross proceeds of approximately \$1,762,000 in transactions intended to qualify for an exemption from registration under the Securities Act of 1933 afforded by Regulation S promulgated thereunder.

On May 28, 2002, CanArgo completed an offering of 137,760 common shares at NOK

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

Minority shareholder advances as at December 31, 2001 related to the receipt of convertible loans from new minority shareholders of CanArgo's subsidiary, CanArgo Norio Limited (Norio). The cash amount received represented part of the new minority shareholder's share of the cost of drilling an exploration well under the Norio and North Kumisi production sharing agreement. In November 2002, CanArgo reached agreement with the other shareholders in Norio on increasing CanArgo's interest in Norio. Under the agreement CanArgo's interest increased from 50% to 64.2% in Norio and its existing Norio and North Kumisi production sharing agreement. Subsequently, the convertible loans have been reclassified as minority interest on finalisation of respective equity shares.

Minority interest in continuing and discontinued subsidiaries increased by \$1,988,000 to \$3,519,000 at December 31, 2002 from \$1,531,000 at December 31, 2001 due to the reclassification of \$1,207,000 from minority shareholder advances resulting from finalisation of CanArgo's equity interest from 50% to 64.2% in Norio and its existing Norio and North Kumisi production sharing agreement, an increase of \$444,000 resulting from CanArgo's adjusted interest in its final share of th