CANARGO ENERGY CORP
Form 10-Q
May 15, 2001

1

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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

COMMISSION FILE NUMBER 0-9147

CANARGO ENERGY CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

(44) 207 808 4700
(REGISTRANT'S TELEPHONE NUMBER)

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

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

Yes X No ___

The number of shares of registrant's common stock outstanding on April 30, 2001 was 75,535,523. An additional 415,158 shares of common stock are issuable at any time without additional consideration upon exercise of CanArgo Oil & Gas Inc.

Exchangeable Shares.

2

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED BALANCE SHEET

	Unaudited MARCH 31, 2001	Decem 2
ASSETS		
Cash and cash equivalents	$ 18,512,731	$ 2
Accounts receivable	1,531,960	
Advances to operator	4,989,378	
Inventory	432,592	
Other current assets	351,558	
Total current assets	$ 25,818,219	$ 3
Capital assets	53,067,104	5
Investments in and advances to oil and gas and other ventures - net	772,006	
Deferred acquisition costs	139,178	
TOTAL ASSETS	$ 79,796,507	$ 8
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 2,384,193	$
Advances from joint venture partner	1,937,781	
Accrued liabilities	198,936	
Total current liabilities	$ 4,520,910	$
Provision for future site restoration	50,290	
Minority interest in subsidiaries	3,125,724	
Stockholders' equity:		
Preferred stock, par value $0.10 per share	-	
Common stock, par value $0.10 per share	7,595,069	
Capital in excess of par value	139,071,031	13
Accumulated deficit	(74,566,517)	(7
Total stockholders' equity	$ 72,099,583	$ 7
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 79,796,507	$ 8

See accompanying notes to unaudited consolidated
condensed financial statements.

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Unaudited	
	MARCH 31, 2001	March 200
Operating Revenues:		
Oil and gas sales	$ 1,748,195	$ 1,8
Refining and marketing	1,849,608	
Other	-	1
	3,597,803	2,0
Operating Expenses:		
Field operating expenses	502,217	3
Purchases of crude oil and products	1,157,724	
Refinery operating expenses	120,406	
Direct project costs	249,580	1
General and administrative	927,889	3
Depreciation, depletion and amortization	1,185,788	1,0
	4,143,604	1,9
OPERATING INCOME (LOSS)	(545,801)	1
Other Income (Expense):		
Interest, net	391,156	
Other	(104,279)	
Equity loss from investments in unconsolidated subsidiaries	(37,000)	(
TOTAL OTHER INCOME (EXPENSE)	249,877	
NET INCOME (LOSS) BEFORE MINORITY INTEREST	(295,924)	1
Minority interest in income of consolidated subsidiaries	(30,157)	(
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	$ (326,081)	$ 1
Weighted average number of common shares outstanding	75,950,681	37,4

NET LOSS PER COMMON SHARE - BASIC	$ (0.00)	$
NET LOSS PER COMMON SHARE - DILUTED	$ (0.00)	$

See accompanying notes to unaudited consolidated condensed financial statements.

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Unaudited	
	MARCH 31, 2001	Ma
Operating activities:		
Net income (loss)	$ (326,081)	$
Depreciation, depletion and amortization	1,185,788	
Issuance of common stock for services	-	
Equity loss from investments in unconsolidated subsidiaries	37,000	
Allowance for doubtful accounts	100,000	
Minority interest in income of consolidated subsidiaries	30,157	
Changes in assets and liabilities:		
Accounts receivable	(845,390)	
Advances to operator	(3,842,794)	
Inventory	263,317	
Other current assets	(17,156)	
Accounts payable	(306,925)	
Accrued liabilities	(125,000)	
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	(3,847,084)	
Investing activities:		
Capital expenditures	(3,766,248)	
Investments in and advances to oil and gas and other ventures	(112,632)	
Acquisition costs	(139,178)	
NET CASH USED IN INVESTING ACTIVITIES	(4,018,058)	
Financing Activities:		
Advances from minority interest	1,701,652	
Advances from joint venture partner	(3,950,792)	

NET CASH PROVIDED BY (USED FROM) FINANCING ACTIVITIES	(2,249,140)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,114,282)	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,627,013	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 18,512,731	$

See accompanying notes to unaudited consolidated condensed financial statements.

PART I - FINANCIAL INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 1. FINANCIAL STATEMENTS
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000 (UNAUDITED)

(1) Basis of Presentation

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

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

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

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

Ultimate realization of the carrying value of CanArgo's oil and gas properties will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to CanArgo. This is dependent upon, among other factors, achieving significant production at costs that provide acceptable margins, reasonable levels of taxation from local authorities and the ability to market the oil and gas produced at or near world prices. In addition, CanArgo must mobilize drilling equipment and personnel to initiate drilling, completion and production activities. If one or more of the above factors, or other factors, are different than anticipated, CanArgo may not recover its carrying value. CanArgo generally has the principal responsibility for arranging financing for the oil and gas properties and ventures (see note 5) in which it has an interest. There can be no assurance, however, that CanArgo or the entities that are developing the oil and gas properties and ventures will be able to arrange the financing necessary to develop the projects being undertaken or to support the corporate and other activities of CanArgo or that such financing as is available will be on terms that are attractive or acceptable to or are deemed to be in the best interests of CanArgo, such entities or their respective stockholders or participants.

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

5

6

(3) Foreign Operations

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

(4) Capital Assets, Net

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

	MARCH 31, 2001		
	COST	ACCUMULATED DEPRECIATION AND IMPAIRMENT	NET CAPITAL ASSETS

OIL AND GAS PROPERTIES			
Proved properties	$ 27,792,922	$ (6,582,509)	$ 21,210,4
Unproved properties	13,873,551	-	13,873,5
	41,666,473	(6,582,509)	35,083,9
PROPERTY AND EQUIPMENT			
Oil and gas related equipment	13,502,886	(2,989,868)	10,513,0
Office furniture, fixtures and equipment and other	1,105,944	(550,583)	555,3
	14,608,830	(3,540,451)	11,068,3
REFINING AND MARKETING	7,202,318	(287,557)	6,914,7
	$ 63,477,621	$ (10,410,517)	$ 53,067,1

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

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

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

INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	MARC 20
Ukraine - Stynawske Field, Boryslaw	
Through 45% ownership of Boryslaw Oil Company	$ 6,
Republic of Georgia	
Through 50.0% effective ownership CanArgo Power Corporation	
Republic of Georgia - Ninotsminda	
Through an effective 50% ownership of East Georgian Pipeline Co.	
Uentech International Corporation	
Through an effective 45% voting interest	
Other Investments	
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES	$ 7,

EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	
Ukraine - Stynawske Field, Boryslaw	(
Republic of Georgia - CanArgo Power Corporation	(
Republic of Georgia - East Georgian Pipeline Co.	
Uentech International Corporation	(
CUMULATIVE EQUITY IN PROFIT (LOSS) OF OIL AND GAS AND OTHER VENTURES	$ (1,
IMPAIRMENT - STYNAWSKE FIELD	(5,
TOTAL INVESTMENTS IN AND ADVANCES TO OIL AND GAS AND OTHER VENTURES, NET OF EQUITY LOSS AND IMPAIRMENT	$

As of March 31, 2001, CanArgo had a 50% interest in CanArgo Power Corporation and an effective 42.5% interest in Sagarego Power Corporation, a Georgian joint stock company, for which operations have not yet begun. In April 2001, CanArgo acquired from a wholly owned subsidiary of Terrenex Acquisition Corporation the remaining 50% interest it did not own in CanArgo Power Corporation for cash consideration of $425,000. In a related but separate transaction, CanArgo sold in April 2001 all of its voting and non voting shares of Uentech International Corporation to a wholly owned subsidiary of Terrenex Acquisition Corporation. Proceeds from the sale of Uentech International Corporation were $125,000. On completion of the acquisition, CanArgo Power Corporation became a subsidiary of CanArgo and CanArgo has an effective 85% interest in Sagarego Power Corporation.

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

(6) Accrued Liabilities

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

	MARCH 31, 2001
Professional fees	$ 50,000
Office relocation	126,666
Other	22,270
	$ 198,936

============

(7) Stockholders' Equity

	COMMON STOCK		
	NUMBER OF SHARES ISSUED AND ISSUABLE	PAR VALUE	ADDITIONAL PAID-IN CAPITAL
TOTAL, DECEMBER 31, 2000	75,950,681	$ 7,595,069	$139,071,031
Less shares issuable at beginning of period	(423,791)	(42,379)	(795,712)
Issuance of common stock upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares	8,633	863	16,209
Net income (loss)	--	--	--
BALANCE, MARCH 31, 2001	75,535,523	$ 7,553,553	$138,291,528
Shares issuable upon exchange of CanArgo Oil & Gas Inc. Exchangeable Shares without receipt of further consideration	415,158	41,516	779,503
Total, March 31, 2001	75,950,681	$ 7,595,069	$139,071,031

(8) Net Income (Loss) Per Common Share

Basic and diluted net income (loss) per common share for the periods ended March 31, 2001 and March 31, 2000 are based on the weighted average number of common shares outstanding during those periods. The weighted average numbers of shares issued and issuable without receipt of additional consideration for the three month periods ended March 31, 2001 and 2000 are 75,950,681 and 37,422,144 respectively. Options to purchase CanArgo's common stock were outstanding at March 31, 2001 but were not included in the computation of diluted net income (loss) per common share because the effect of such inclusion would have been anti-dilutive.

8

9

(9) Commitments and Contingencies

OIL AND GAS PROPERTIES AND INVESTMENTS IN OIL AND GAS VENTURES

CanArgo has contingent obligations and may incur additional obligations, absolute and contingent, with respect to acquiring and developing oil and gas properties and ventures. At March 31, 2001, CanArgo had the contingent obligation to issue an aggregate of 187,500 shares of its common stock, subject to the satisfaction of conditions related to the achievement of specified performance standards by the Stynawske field project. In December 2000, CanArgo announced that a preliminary development plan had been reached with the joint venture partner.

(10) Segment Information

For the three month period ended March 31, 2000, CanArgo operated through one business segment, oil and gas exploration and production. In the fourth quarter of 2000, CanArgo expanded its oil and gas exploration and production activities to include the refining and marketing of crude oil and crude oil products.

Operating revenues for the three month periods ended March 31, 2001 and 2000 by geographical area were as follows:

	MARCH 31, 2001	
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ 1,967,544	$
REFINING AND MARKETING		
Eastern Europe	1,849,608	
INTERSEGMENT ELIMINATIONS	(219,349)	
TOTAL	$ 3,597,803	$

Operating income (loss) for the three month periods ended March 31, 2001 and 2000 by geographical area was as follows:

	MARCH 31, 2001	
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION		
Eastern Europe	$ 454,635	$
REFINING AND MARKETING		
Eastern Europe	64,683	
CORPORATE AND OTHER EXPENSES	(1,065,119)	
TOTAL OPERATING INCOME (LOSS)	$ (545,801)	$

Net income (loss) before minority interest for the three month periods ended March 31, 2001 and 2000 by geographic area was as follows:

	MARCH 31, 2001
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION	
Eastern Europe	$ 453,585
REFINING AND MARKETING	
Eastern Europe	59,962
CORPORATE AND OTHER EXPENSES	(809,471)
NET INCOME (LOSS) BEFORE MINORITY INTEREST	$ (295,924)

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

	MARCH 31, 2001
CORPORATE	
Eastern Europe	$ 432,592
Western Europe	25,385,627
TOTAL	25,818,219
OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION	
Eastern Europe	46,657,957
REFINING AND MARKETING	
Eastern Europe	6,548,325
OTHER ENERGY PROJECTS	
Eastern Europe	772,006
IDENTIFIABLE ASSETS - TOTAL	$ 79,796,507

(11) Subsequent Events

In April 2001, CanArgo acquired from a wholly owned subsidiary of Terrenex Acquisition Corporation the remaining 50% interest it did not own in CanArgo Power Corporation for cash consideration of $425,000. In a related but separate transaction, CanArgo sold in April 2001 all of its voting and non voting shares of Uentech International Corporation to a wholly owned subsidiary of Terrenex Acquisition Corporation. Proceeds from the sale of Uentech International Corporation were $125,000. Russell Hammond is a director of CanArgo and Chairman of Terrenex Acquisition Corporation; and

Peder Paus, a director of CanArgo, is a director of Terrenex Acquisition Corporation and a 12% stockholder of Terrenex Acquisition Corporation. Both transactions were approved by an independent committee of the Board of Directors.

On April 30, 2001 CanArgo acquired 26,450,702 common shares of Lateral Vector Resources Inc. for cash consideration of approximately $1,883,200 (Cdn $2,909,577). The purchase represented approximately 77% of the common shares of Lateral Vector Resources Inc. on a fully diluted basis. The purchase of common shares was originally made pursuant to an offer dated March 20, 2001 by a wholly owned subsidiary of CanArgo to purchase all outstanding common shares of Lateral Vector Resources Inc. The offer was subsequently amended on April 9, 2001 to increase the purchase price to Cdn $0.11 per share and to amend and remove certain conditions to CanArgo's obligation to purchase the common shares. CanArgo intends to acquire any shares not deposited under the offer by way of a second stage

transaction particulars of which are set out in section 12 of the Circular dated March 20th 2001 which accompanied the document containing CanArgo's original offer for Lateral Vector Resources Inc. common shares.

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

QUALIFYING STATEMENT WITH RESPECT TO FORWARD-LOOKING INFORMATION

The United States Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for certain forward looking statements. Such forward looking statements are based upon the current expectations of CanArgo and speak only as of the date made. These forward looking statements involve risks, uncertainties and other factors. The factors discussed below under "Forward Looking Statements" and elsewhere in this Quarterly Report on Form 10-Q are among those factors that in some cases have affected CanArgo's historic results and could cause actual results in the future to differ significantly from the results anticipated in forward looking statements made in this Quarterly Report on Form 10-Q, future filings by CanArgo with the Securities and Exchange Commission, in CanArgo's press releases and in oral statements made by authorized officers of CanArgo. When used in this Quarterly Report on Form 10-Q, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "hope," "may" and similar expressions, as well as "will," "shall" and other indications of future tense, are intended to identify forward looking statements.

LIQUIDITY, CAPITAL RESOURCES AND CHANGES IN FINANCIAL CONDITION

CanArgo's management believes that cash and cash equivalents at March 31, 2001 should be sufficient to cover operating needs for existing projects during the next twelve month period. Also, CanArgo's cash balance at March 31, 2001 satisfies CanArgo's near term funding requirements with respect to its activities in the Republic of Georgia envisaged in August 2000. Current development plans for the Ninotsminda field includes the drilling of exploration well N100, several rehabilitations of existing wells and quantification of the reserve and production potential of the recently announced discoveries in the Saramatian and Upper Eocene sequences. These plans are scheduled to be implemented in 2001 and the first half of 2002, but that timing is dependent upon key supplies and other equipment for the development being available promptly as well as adequate financing.

While a considerable amount of infrastructure for the Ninotsminda field has been put in place, CanArgo cannot provide assurance that:

- funding of the Ninotsminda field development plan will be timely,
- that the development plan will be successfully completed or will increase production, or
- that the Ninotsminda field operating revenues after completion of the development plan will exceed operating costs.

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

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

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

- mobilization of equipment and personnel to implement effectively drilling, completion and production activities;
- achieving significant production at costs that provide acceptable margins;
- reasonable levels of taxation, or economic arrangements in lieu of taxation in host countries; and
- the ability to market the oil and gas produced at or near world prices.

CanArgo has plans to mobilize resources and achieve levels of production and profits sufficient to recover the carrying value of its oil and gas properties and ventures. However, if one or more of the above factors, or other factors, are different than anticipated, these plans may not be realized, and CanArgo may not recover the carrying value of its oil and gas properties and ventures.

CanArgo will be entitled to distributions from the various properties and ventures in which it participates in accordance with the arrangements governing the respective properties and ventures.

CHANGES IN FINANCIAL POSITION

As of March 31, 2001, CanArgo had working capital of $21,297,000, compared to working capital of $22,687,000 as of December 31, 2000. The $1,390,000 decrease in working capital from December 31, 2000 to March 31, 2001 is principally due to capital and operating expenditures.

Cash and cash equivalents decreased from $28,627,000 at December 31, 2000 to $18,513,000 at March 31, 2001. The decrease was primarily due to the cost of a three-well exploration program currently underway at the Ninotsminda field.

Cash and cash equivalents at March 31, 2001 included $1,938,000 held by Ninotsminda Oil Company with respect to initial advances, less capital expenditures, from AES Gardabani related to AES Gardabani's participation in a three well exploration program in the Republic of Georgia.

Accounts receivable increased from $787,000 at December 31, 2000 to $1,532,000 at March 31, 2001. The increase is primarily as a result of accounts receivable generated from oil and natural gas sales in 2001.

Advances to operator increased from $1,147,000 at December 31, 2000 to $4,989,000 at March 31, 2001 as a result of advances to the operator of the Ninotsminda field for future expenditures on behalf and at the direction of CanArgo.

Inventory decreased from $696,000 at December 31, 2000 to $433,000 at March 31, 2001 primarily as result of the sale of inventory by Georgian American Oil Refinery. In addition to the crude oil and refined product in inventory at Georgian American Oil Refinery, at March 31, 2001, approximately 31,900 barrels of oil were held in storage by Ninotsminda Oil Company for sale in the Georgian domestic and regional market or in the international market. Depending on the demand and price for oil in the Georgian domestic and regional market CanArgo may decide to place, as a strategic initiative, additional production in storage.

Capital assets, net increased from $50,477,000 at December 31, 2000 to $53,067,000 at March 31, 2001, primarily as a result of investment of $3,509,000 in capital assets including oil and gas properties and equipment, principally related to the Ninotsminda field.

Investments in and advances to oil and gas and other ventures, net increased from $696,000 at December 31, 2000 to $772,000 at March 31, 2001. The increase reflects principally advances to CanArgo Power Corporation related to preparation of CanArgo Power Corporation's 3 megawatt electricity producing powerplant in anticipation of its use at the Ninotsminda field.

Deferred acquisition costs relate to costs associated with CanArgo's acquisition subsequent to March 31, 2001 of 77% of the outstanding common shares of Lateral

Vector Resources Inc. on a fully diluted basis. Under purchase accounting, Lateral Vector Resources Inc.'s results will be included in CanArgo's consolidated financial statements from April 30, 2001, the date of acquisition.

CanArgo has contingent obligations and may incur additional obligations, absolute or contingent, with respect to the acquisition and development of oil and gas properties and ventures in which it has interests that require or may require CanArgo to expend funds and to issue shares of its Common Stock. CanArgo believes that it has no further obligation to fund any operations relating to the Lelyaki and Maykop field projects. At March 31, 2001, CanArgo had a contingent obligation to issue 187,500 shares of common stock to a third party upon satisfaction of conditions relating to the achievement of specified Stynawske field project performance standards. As CanArgo develops current projects and undertakes other projects, it could incur significant additional obligations.

Accounts payable decreased to $2,384,000 at March 31, 2001 from $2,691,000 at December 31, 2000 primarily as a result of payments related to the 2000 seismic program.

Advances from joint venture partner decreased to $1,938,000 at March 31, 2001 compared to $5,889,000 at December 31, 2000 as capital expenditures were incurred as part a three well exploration program in the Republic of Georgia.

Minority interest in subsidiaries increased to $3,126,000 at March 31, 2001 compared to $1,394,000 at December 31, 2000 following the expansion of CanArgo Standard Oil Products in Tbilisi, Georgia and related investment by CanArgo's partners in the venture. CanArgo consolidates its 50% interest in CanArgo Standard Oil Products as it has the ability to control the strategic operating and financial activities of the joint venture.

RESULTS OF OPERATIONS

Three Month Period Ended March 31, 2001 Compared to Three Month Period Ended March 31, 2000

In November 2000, CanArgo acquired a 51% interest in Georgian American Oil Refinery and Georgian American Oil Refinery became a subsidiary of CanArgo. Under purchase accounting, Georgian American Oil Refinery's results have been included in CanArgo's consolidated financial statements since the date of acquisition. In December 2000, the first of several petrol stations planned by CanArgo Standard Oil Products also opened in Tbilisi, Georgia.

CanArgo recorded operating revenue of $3,598,000 during the three month period ended March 31, 2001 compared with $2,081,000 for the three month period ended March 31, 2000. The increase is primarily due to refining and marketing revenue from Georgian American Oil Refinery and CanArgo Standard Oil Products.

Ninotsminda Oil Company generated $1,748,000 of revenue in the three month period ended March 31, 2001. Its net share of the 130,960 barrels (1,423 barrels per day) of gross oil production for sale from the Ninotsminda field in the period amounted to 79,760 barrels. An additional 6,700 barrels of oil were removed from storage and sold in the period. For the three month period ended March 31, 2000, Ninotsminda Oil Company's net share of the 126,478 barrels (1,405 barrels per day) of gross production was 66,033 barrels.

All of Ninotsminda Oil Company's share of production was sold into the Georgian local and regional market. Because lower transportation costs are involved, CanArgo believes that sales of Ninotsminda oil to customers in the Georgian local and regional market generally yield relatively higher net sales prices to Ninotsminda Oil Company than sales to other customers. Net sale prices for Ninotsminda oil sold during the first quarter of 2001 averaged $20.22 per barrel as compared with an average of $18.68 per barrel in the first three months of 2000. Its net share of the 446,700 mcf of gas delivered was 290,330 mcf at an average net sale price of $1.16 per mcf of gas. For the three month period ended March 31, 2000, Ninotsminda Oil Company's net share of the 550,000 mcf of gas delivered was 359,000 mcf at an average net sales price of $1.25 per mcf of gas. All gas sales were made to one customer, AES Telasi.

Oil and gas revenues for the three month period ending June 30, 2001 may decrease following a second shut down for maintenance of two generating units at the Gardabani power plant and to allow for drilling of N100, a deep Cretaceous exploration well, to continue. Arrangements have been made with a second customer to purchase gas while maintenance at the Gardabani power plant is performed.

Refining and marketing revenue for the three month period ended March 31, 2001 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products. In the first quarter of 2001, sales from the refinery continued to be nominal following the imposition of restrictions and subsequent excise tax on feedstock. These issues were expected to have been addressed by authorities in Georgia culminating in new legislation addressing indigenous refining activities in March 2001. In April 2001, these changes were passed. No assurance can be given, however, that new legislation will not be put forward that will reintroduce restrictions and excise taxes on feedstock and refined product.

CanArgo had no revenue from equipment rentals in the first quarter of 2001 compared to other revenue from equipment rentals of $196,000 for the three month period ended March 31, 2000.

The operating loss for the three month period ended March 31, 2001 amounted to $546,000 compared with an operating income of $123,000 for the corresponding period in 2000. The increase in operating loss is attributable primarily to significant increases in operating and corporate activity.

Lease operating expenses increased to $502,000 for the three month period ended March 31, 2001 as compared to $373,000 for the three month period ended March 31, 2000. The increase is primarily a result of increased activity at the Ninotsminda field.

Purchases of crude oil and products and refinery operating expenses of $1,158,000 and $120,000 respectively for the three month period ended March 31, 2001 relate to operating activities of Georgian American Oil Refinery and CanArgo Standard Oil Products respectively.

Direct project costs increased to $250,000 for the three month period ended March 31, 2001, from $136,000 for the three month period ended March 31, 2000, reflecting increased activity within Georgia and reestablishment of activity with respect to the licence Boryslaw Oil Company holds in the Stynawske field, Ukraine. Direct project costs are expected to further increase following the acquistion of Lateral Vector Resources Inc. Lateral Vector Resources Inc. negotiated and concluded a Joint Investment Production Activity (JIPA) agreement in 1998 to develop the Bugruvativske field in eastern Ukraine together with Ukrnafta. Under the terms of this JIPA, LVR have certain rights to incremental production from the field, which CanArgo understands is currently producing oil, and is one of the larger oil fields in that area. Under the terms of the JIPA and associated work programmes, it would be planned to significantly increase production from the Field by investment in both remedial workover activity and potential infill drilling, horizontal drilling and pressure maintenance utilising appropriate technologies.

General and administrative costs increased to $928,000 for the three month period ended March 31, 2001, from $374,000 for the three month period ended March 31, 2000. The increase is primarily attributable to significant increased operating and corporate activity, higher costs attributed to the London office following the move of administrative and finance functions from Calgary to London in 2000 and general and administrative costs of $190,400 related to refining and marketing activities.

The increase in depreciation, depletion and amortization expense to $1,186,000 from $1,075,000 for the three month period ended March 31, 2000 is attributable principally to depletion related to Ninotsminda field oil production and depreciation of drilling equipment.

The equity loss from investments in unconsolidated subsidiaries increased to $37,000 for the three month period ended March 31, 2001, from $13,000 for the three month period ended March 31, 2000 as a result of expenses related to operation of the gas pipeline from Ninotsminda to the Gardabani power station.

CanArgo recorded net other income of $250,000 for the three months ended March 31, 2001, as compared to other loss of $15,000 during the three months ended March 31, 2000. The principal reason for the increase is interest income on cash balances less an allowance for doubtful accounts of $100,000 related to outstanding gas sales.

The net loss of $326,000 or $nil per share for the three month period ended March 31, 2001 compares to a net income of $100,000, or $nil per share for the three month period ended March 31, 2000. The weighted average number of common shares outstanding was substantially higher during the three month period ended March 31, 2001 than during the three month period ended March 31, 2000, due in large part to private placements in April, June and August 2000.

NEW ACCOUNTING STANDARDS

In 1998, FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and in June 2000 issued SFAS No. 138, which amended certain provisions of SFAS 133. SFAS 133, as amended, will be adopted in the 2001 annual financial statements and based on present circumstances would not have any material effect on CanArgo's financial statements.

FORWARD LOOKING STATEMENTS

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

Few of such forward looking statements deal with matters that are within the unilateral control of CanArgo. 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. Such third parties generally have interests that do not coincide with those of CanArgo and may conflict with CanArgo's interests. Unless CanArgo and such third parties are able to compromise their respective objectives in a mutually acceptable manner, agreements and arrangements will not be consummated.

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

CanArgo does not have a majority of the equity in the entity that is the licensed developer of some projects that CanArgo may pursue in Eastern Europe such as the Stynawske field project, even though CanArgo may be the designated operator of the oil or gas field. In such circumstances, the concurrence of co-venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from those of CanArgo, even if they generally share CanArgo's objectives. As a result of all of the foregoing, among other matters, the forward looking statements regarding the occurrence and timing of future events may well anticipate results that will not be realized.

The availability of equity or debt financing to CanArgo or to the entities that are developing projects in which CanArgo has interests is affected by many factors including:

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

Rising interest rates might affect the feasibility of debt financing that is offered. Potential investors and lenders will be influenced by their evaluations of CanArgo and its projects and comparisons with alternative investment opportunities. CanArgo's ability to finance all of its present oil and gas projects and other ventures according to present plans is dependent upon obtaining additional funding. An inability to obtain financing could require CanArgo to scale back its project development, capital expenditure, production and other plans.

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

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

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II - OTHER INFORMATION
CANARGO ENERGY CORPORATION AND SUBSIDIARIES

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

Management Contracts, Compensation Plans and Arrangements are identified by an asterisk (*)

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

filed on September 9, 1999).

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

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

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

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

2(2) Supplemental Agreement Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated November 3, 1995 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from October 19, 1995 Form 8-K).

2(3) Supplemental Deed Relating to the Sale and Purchase of All the Issued Share Capital of Gastron International Limited dated May 29, 1996 by and among Ribalta Holdings, Inc. as Vendor and Fountain Oil Incorporated as Purchaser, and John Richard Tate as Warrantor (Incorporated herein by reference from September 30, 1997 Form 10-Q).

2(4) Memorandum of Agreement between Fielden Management Services Pty, Ltd., A.C.N. 005 506 123 and Fountain Oil Incorporated dated May 16, 1995 (Incorporated herein by reference from December 31, 1997 Form 10-K/A).

2(5) Amended and Restated Combination Agreement between Fountain Oil Incorporated and CanArgo Energy Inc. dated as of February 2, 1998 (Incorporated herein by reference from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).

2(6) Voting, Support and Exchange Trust Agreement (Incorporated herein by reference as Annex G from Form S-3 Registration Statement, File No. 333-48287 filed on September 9, 1998).

18

19

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

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

3(1)	Registrant's Certificate of Incorporation and amendments thereto (Incorporated herein by reference from July 15, 1998 Form 8-K).
3(2)	Registrant's Bylaws (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
4(1)	Registration Rights Agreement between Registrant and JKX Nederland B.V. dated September 28, 2000, relating to purchase of 21.2% interest in Ninotsminda Oil Company (Incorporated herein by reference from July 20, 2000 Form 8-K).
*10(1)	Form of Option Agreement for options granted to certain persons, including Directors (Incorporated herein by reference from August 31, 1994 Form 10-KSB, filed by Electromagnetic Oil Recovery, Inc., the Company's predecessor).
*10(2)	Amended and Restated 1995 Long-Term Incentive Plan (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).
*10(3)	Amended and Restated CanArgo Energy Inc. Stock Option Plan (Incorporated herein by reference from September 30, 1998 Form 10-Q).
*10(4)	Workorder between CanArgo Energy Inc. and Nils N. Trulsvik as Consultant (Incorporated herein by reference from September 30, 1998 Form 10-Q).
*10(5)	Employment Contract between CanArgo Energy Inc. and Anthony J. Potter (Incorporated herein by reference from September 30, 1998 Form 10-Q).
10(6)	Put Option Agreement between CanArgo Energy Corporation, JKX Oil & Gas PLC. and IFC dated December 17, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
10(7)	Guarantee Agreement between CanArgo Energy Corporation and IFC dated December 17, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
10(8)	Agreement between Georgian American Oil Refinery Company and CanArgo Petroleum Products Ltd. dated September 26, 1998 (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).
10(9)	Terrenex Acquisition Corporation Option regarding CanArgo (Nazvrevi) Limited (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

10(10) Production Sharing Contract between (1) Georgia and (2) Georgian Oil and JKX Navtobi

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

10(11) Agreement and Promissory Note dated July 19, 1999, with Terrenex Acquisition Corporation (Incorporated herein by reference from Post-Effective Amendment No. 1 to Form S-1 Registration Statement, File No. 333-72295 filed on July 29, 1999).

10(12) Agreement between CanArgo Energy Corporation, Ninotsminda Oil Company and IFC dated October 19, 1999 (Incorporated herein by reference from September 30, 1999 Form 10-Q).

10(13) Agreement on Financial Advisory Services between CanArgo Energy Corporation, Orkla Finans (Fondsmegling) A.S and Sundal Collier & Co. ASA dated December 8, 1999 (Incorporated herein by reference from December 28, 1999 Form 8-K).

10(14) Form of Subscription Agreement (Incorporated herein by reference from December 28, 1999 Form 8-K).

10(15) Agreement between CanArgo Energy Corporation and JKX Nederland BV dated January 19, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

*10(16) Employment Agreement between CanArgo Energy Corporation and Paddy Chesterman dated February 24, 2000 (Incorporated herein by reference from December 31, 1999 Form 10-K).

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

10(18) Term Sheet dated September 27, 2000 relating to sale of 15,660,916 shares of Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form 8-K).

10(19) Form of Subscription Agreement relating to sale of 15,660,916 shares of the Registrant's common stock (Incorporated herein by reference from July 20, 2000 Form 8-K).

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

*10(21) Employment Agreement between CanArgo Energy Corporation and Dr. David Robson dated June 29, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).

10(22) Tenancy Agreement between CanArgo Energy Corporation and

Grosvenor West End Properties dated September 8, 2000 (Incorporated herein by reference from September 30, 2000 Form 10-Q).

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

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

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

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

Norio Limited dated December 12, 2000.

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

10(28) Share Exchange Agreement between CanArgo Energy Corporation and Argonaut Oil and Gas Limited dated November 10, 2000, related to the purchase of 28.7% interest in Georgian American Oil Refinery (Incorporated herein by reference from December 31, 2000 Form 10-K).

21 List of Subsidiaries (Incorporated herein by reference from Form S-1 Registration Statement, File No. 333-72295 filed on February 12, 1999).

(b) Reports on Form 8-K:

On March 8, 2001, CanArgo announced that it intended to make an offer to purchase all outstanding common shares of Lateral Vector Resources Inc. The Offer was made through a wholly owned subsidiary of CanArgo organised for the purposes of making the offer. The basis of the Offer to Lateral Vector Resources Inc. shareholders was Canadian $0.10 in cash for each outstanding Lateral Vector Resources Inc. share.

On April 30, 2001 CanArgo acquired 26,450,702 common shares of Lateral Vector Resources Inc. for cash consideration of approximately $1,883,200 (Canadian $2,909,577). The purchase represented approximately 77% of the common shares of Lateral Vector Resources Inc. on a fully diluted basis. The purchase of common shares was originally made pursuant to an offer dated March 20, 2001 by a wholly owned subsidiary of CanArgo to purchase all outstanding common shares of Lateral Vector Resources Inc. The offer was subsequently amended on April 9, 2001 to increase the purchase price to Cdn $0.11 per share and to amend and remove certain conditions to CanArgo's obligation to purchase the common shares. CanArgo intends to acquire any shares not deposited under the offer by way of a second stage transaction particulars of which are set out in section 12 of the Circular dated March 20th 2001 which accompanied the document containing CanArgo's original offer for Lateral Vector Resources Inc.

SIGNATURES

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

CANARGO ENERGY CORPORATION

Date: May 14, 2001 By: /s/Anthony J. Potter

Anthony J. Potter
Chief Financial Officer