

CANARGO ENERGY CORP

Form 10-Q

August 09, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005**

**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 0001-32145  
CANARGO ENERGY CORPORATION**

**(Exact name of registrant as specified in its charter)**

Delaware

91-0881481

**(State or other jurisdiction of  
Incorporation or organization)**

**(I.R.S. Employer Identification No.)**

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

GY1 3RR

**(Address of principal executive offices)**

**(Zip Code)**

(44) 1481 729 980

**(Registrant's telephone number)**

**(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  No

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

Yes  No

The number of shares of registrant's common stock outstanding on August 4, 2005 was 221,929,283.

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**FORWARD-LOOKING STATEMENTS**

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

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CANARGO ENERGY CORPORATION AND SUBSIDIARIES****Consolidated Condensed Balance Sheets**

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 18,810,753	\$ 24,617,047
Restricted cash	5,300,000	1,400,000
Accounts receivable	1,613,431	2,526,442
Crude oil inventory	691,527	253,858
Prepayments	2,971,569	1,517,836
Assets held for sale	600,000	600,000
Other current assets	155,663	121,610
 Total current assets	 \$ 30,142,943	 \$ 31,036,793
Capital assets, net (including unevaluated amounts of \$39,505,594 and \$25,102,945 respectively)	100,006,728	72,995,666
Prepaid financing fees	550,250	648,507
Investments in and advances to oil and gas and other ventures net		478,632
 <b>Total Assets</b>	 \$ 130,699,921	 \$ 105,159,598
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Accounts payable trade	\$ 2,045,247	\$ 2,331,945
Loans payable	10,200,000	1,500,000
Other liabilities	758,647	3,080,839
Accrued liabilities	5,897,634	172,117
 Total current liabilities	 \$ 18,901,528	 \$ 7,084,901
Long term debt	897,655	832,165
Provision for future site restoration	731,848	422,000
 <b>Total Liabilities</b>	 \$ 20,531,031	 \$ 8,339,066

Commitments and contingencies

Stockholders' equity:

Common stock, par value \$0.10; authorized - 300,000,000 shares; shares issued, issuable and outstanding - 218,485,420 at June 30, 2005 and 195,212,089 at December 31, 2004	<b>21,848,540</b>	19,521,208
Capital in excess of par value	<b>199,749,926</b>	184,141,618
Deferred compensation expense	<b>(1,833,425)</b>	(1,976,102)
Accumulated deficit	<b>(109,596,151)</b>	(104,866,192)
 Total stockholders' equity	 <b>\$ 110,168,890</b>	 \$ 96,820,532
 <b>Total Liabilities and Stockholders' Equity</b>	 <b>\$ 130,699,921</b>	 \$ 105,159,598

The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.

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**CANARGO ENERGY CORPORATION AND SUBSIDIARIES**  
**Consolidated Condensed Statements of Operations**

	Unaudited Three Months Ended		Unaudited Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Operating Revenues from Continuing Operations:				
Oil and gas sales	\$ 1,232,532	\$ 2,078,553	\$ 2,566,209	\$ 5,439,024
	<b>1,232,532</b>	2,078,553	<b>2,566,209</b>	5,439,024
Operating Expenses:				
Field operating expenses	470,310	564,622	969,230	1,232,959
Direct project costs	412,358	346,668	781,196	627,135
Selling, general and administrative	1,530,105	1,213,706	3,358,737	2,125,308
Non-cash stock compensation expense	509,828		842,170	
Depreciation, depletion and amortization	519,375	926,224	1,031,038	1,807,045
(Gain) Loss on dispositions		19,937		(335,014)
	<b>3,441,976</b>	3,071,157	<b>6,982,371</b>	5,457,433
<b>Operating Loss from Continuing Operations</b>	<b>(2,209,444)</b>	(992,604)	<b>(4,416,162)</b>	(18,409)
Other Income (Expense):				
Interest, net	(1,149)	(248,913)	22,820	(256,386)
Other	16,110	(163,130)	(181,601)	(98,720)
Equity Loss from investments	(62,000)		(155,016)	
<b>Total Other Expense</b>	<b>(47,039)</b>	(412,043)	<b>(313,797)</b>	(355,106)
<b>Loss from Continuing Operations Before Minority Interest and Taxes</b>	<b>(2,256,483)</b>	(1,404,646)	<b>(4,729,959)</b>	(373,515)
Minority interest in loss (income) of consolidated subsidiaries		(583)		301
<b>Loss from Continuing Operations Net Income (Loss) from Discontinued Operations, net of taxes and minority interest</b>	<b>(2,256,483)</b>	(1,405,229)	<b>(4,729,959)</b>	(373,214)
		(43,539)		446,825
<b>Net Income (Loss)</b>	<b>\$ (2,256,483)</b>	\$ (1,448,768)	<b>\$ (4,729,959)</b>	\$ 73,611

Weighted average number of common shares outstanding - Basic	<b>205,796,809</b>	113,006,430	<b>200,964,431</b>	109,868,598
- Diluted	<b>205,796,809</b>	113,006,430	<b>200,964,431</b>	112,690,648
<b>Basic Net Income (Loss) Per Common Share</b>				
- from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.00)
- from discontinued operations	\$	\$ (0.00)	\$	\$ 0.00
<b>Basic Net Income (Loss) Per Common</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>	<b>\$ 0.00</b>
<b>Diluted Net Income (Loss) Per Common Share</b>				
- from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.00)
- from discontinued operations	\$	\$ (0.00)	\$	\$ 0.00
<b>Diluted Net Income (Loss) Per Common</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.02)</b>	<b>\$ 0.00</b>
<b>Other Comprehensive Income:</b>				
Foreign currency translation		(242,613)		219,523
<b>Comprehensive Income (Loss)</b>	<b>\$ (2,256,483)</b>	<b>\$ (1,691,381)</b>	<b>\$ (4,729,959)</b>	<b>\$ 293,134</b>

*The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.*

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**CANARGO ENERGY CORPORATION AND SUBSIDIARIES**  
**Consolidated Condensed Statements of Cash Flows**

	<b>Six months ended June, 30</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Operating activities:		
Loss from continuing operations	<b>(4,729,959)</b>	(373,214)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:		
Non-cash stock compensation expense	<b>842,170</b>	
Non-cash interest expense and amortization of debt discount	<b>119,138</b>	296,752
Non-cash reduction in selling, general and administrative expenses		17,280
Common stock issued for services	<b>53,600</b>	
Non-cash miscellaneous expenses	<b>12,500</b>	
Depreciation, depletion and amortization	<b>1,031,038</b>	1,807,045
Equity loss from investments	<b>155,016</b>	
Gain on dispositions		(335,014)
Allowance for doubtful accounts	<b>50,866</b>	
Minority interest in loss of consolidated subsidiaries		(301)
Changes in assets and liabilities:		
Restricted cash	<b>(3,900,000)</b>	
Accounts receivable	<b>862,145</b>	(230,553)
Inventory	<b>(437,669)</b>	349,832
Prepayments	<b>(132,577)</b>	(350,088)
Other current assets	<b>(34,053)</b>	54,935
Accounts payable	<b>(286,698)</b>	(55,015)
Deferred revenue	<b>(2,322,192)</b>	(899,247)
Income taxes payable		(64,500)
Accrued liabilities	<b>421,787</b>	405,374
<b>Net cash generated (used) by operating activities</b>	<b>(8,294,888)</b>	623,287
Investing activities:		
Capital expenditures	<b>(13,766,006)</b>	(3,159,284)
Proceeds from disposition of subsidiary		250,001
Advance proceeds from the sale of CanArgo Standard Oil Products Limited		1,570,000
Change in non-cash working capital items	<b>(1,321,156)</b>	406,601
<b>Net cash used in investing activities</b>	<b>(15,087,162)</b>	(932,682)
Financing activities:		
Proceeds from sale of common stock	<b>3,530,633</b>	499,516
Share issue costs	<b>(435,877)</b>	
Deferred offering costs	<b>(519,000)</b>	(471,508)
Advances from joint venture partner		290,000
Payments of joint venture obligations		(1,063,146)



Proceeds from loans	<b>15,000,000</b>	2,806,000
Repayment of loans		(102,179)
<b>Net cash provided by financing activities</b>	<b>17,575,756</b>	1,958,683
<b>Net cash flows from assets and liabilities held for sale</b>		(3,037)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,806,294)</b>	1,646,251
<b>Cash and cash equivalents, beginning of period</b>	<b>24,617,047</b>	3,472,252
<b>Cash and cash equivalents, end of period</b>	<b>\$ 18,810,753</b>	\$ 5,118,503

The accompanying notes are an integral part of the Consolidated Condensed Financial Statements.

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**CANARGO ENERGY CORPORATION AND SUBSIDIARIES**  
**Notes to Unaudited Consolidated Condensed Financial Statements**

1. **Basis of Presentation**

The interim consolidated condensed financial statements and notes thereto of CanArgo Energy Corporation and its subsidiaries (collectively, we, our, CanArgo or the Company) have been prepared by management without audit pursuant to the rules and regulations of the Securities and Exchange Commission. 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. Although management believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in the financial statements prepared in accordance with accounting principles generally accepted in the U.S., have been condensed or omitted pursuant to such rules and regulations. The accompanying consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in CanArgo's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. All amounts are in U.S. dollars. The results of operations for interim periods are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2005.

**Use of Estimates in the Preparation of Financial Statements**

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

2. **Business Combination**

On June 7, 2005, CanArgo made an offer to acquire 55% of the ordinary share capital of Tethys Petroleum Investments Limited (Tethys) which was held by Provincial Securities Limited (Provincial) and Vando International Finance Limited (Vando) for consideration of 11,000,000 CanArgo common shares. On June 9, 2005 CanArgo issued 5,500,000 shares to Provincial, of which Russ Hammond (one of our non-executive directors) is Investment Advisor and 5,500,000 shares to Vando in connection with this transaction. At June 7, 2005, the closing price of CanArgo total common stock was \$0.76 giving the common stock consideration a market value of \$8,360,000 for the 11 million shares. On completion of the acquisition, CanArgo held 100% of the ordinary share capital of Tethys through its subsidiary CanArgo Limited and Tethys became a wholly-owned subsidiary of the Company. We have recorded our interest as if the acquisition occurred on June 30, 2005.

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

Cash	\$ 609,553
Oil and Gas Properties	6,648,063
Other Current Assets	1,688,294
Current Liabilities	(297,162)
Provision for future site restoration	(288,748)
	\$ 8,360,000

	Historical	Pro Forma (Unaudited) Six Months Ended June 30, 2005		Combined
		Tethys	Adjustments	
Revenue	\$ 2,566,209	\$	\$	\$ 2,566,209
Loss from continuing operations	(\$4,729,959)	(\$215,649)	\$ 155,016(1)	(\$4,790,592)
Net (loss)	(\$4,729,959)	(\$215,649)	\$ 155,016	(\$4,790,592)
Basic and diluted loss per share				(\$0.02)
Basic and diluted weighted average common shares outstanding				211,964,431

(1) To add back the equity loss on investment recorded during the first six months of 2005 for the Company's share of losses prior to acquisition of its majority interest.

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	Historical	Pro Forma (Unaudited) Three Months Ended June 30, 2005		Combined
		Tethys	Adjustments	
Revenue	\$ 2,078,553	\$	\$	\$ 2,078,553
Loss from continuing operations	(\$2,256,483)	(\$131,569)	\$ 62,000(1)	(\$2,326,052)
Net (loss)	(\$2,256,483)	(\$131,569)	\$ 62,000	(\$2,326,052)
Basic and diluted loss per share				(\$0.01)
Basic and diluted weighted average common shares outstanding				216,796,809

(1) To add back the equity loss on investment recorded during the first six months of 2005 for the Company's share of losses prior to acquisition of its majority interest.

	Historical	Pro Forma (Unaudited) Six Months Ended June 30, 2004		Combined
		Tethys	Adjustments	
Revenue	\$ 5,439,024	\$	\$	\$ 5,439,024
Loss from continuing operations	(\$373,214)	\$	\$	(\$373,214)
Net income	\$ 73,611	\$	\$	\$ 73,611
Basic income per share				\$ 0.00

Diluted income per share	\$ 0.00
Basic weighted average common shares outstanding	120,868,598
Diluted weighted average common shares outstanding	123,690,648

	Pro Forma (Unaudited) Three Months Ended June 30, 2004			Combined
	Historical	Tethys	Adjustments	
Revenue	\$ 2,078,553	\$	\$	\$ 2,078,553
Loss from continuing operations	(\$1,405,229)	\$	\$	(\$1,405,229)
Net income	(\$1,448,768)	\$	\$	(\$1,448,768)
Basic and diluted loss per share				(\$0.01)
Basic and diluted weighted average common shares outstanding				124,006,430

**Table of Contents****3 Dismantlement, Restoration and Environmental Costs**

Effective January 1, 2003, we recognize liabilities for asset retirement obligations associated with tangible long-lived assets, such as producing well sites, with a corresponding increase in the related long-lived asset. The asset retirement cost is depreciated along with the property and equipment in the full cost pool. The asset retirement obligation is recorded at fair value and accretion expense, recognized over the life of the property, increases the liability to its expected settlement value. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded for both the asset retirement obligation and the asset retirement cost. As at June 30, 2005 the asset retirement obligation, which is included on the consolidated balance sheet in provision for future site restoration, was \$731,848, which includes \$288,748 for retirement obligations related to our acquired Tethys operations.

**4 Foreign Operations**

Our current and future operations and earnings depend upon the results of our operations primarily in the Republic of Georgia ( Georgia ) and to a lesser degree in the Republic of Kazakhstan ( Kazakhstan ). There can be no assurance that we will be able to successfully conduct such operations, and a failure to do so would have a material adverse effect on our financial position, results of operations and cash flows. Also, the success of our operations generally 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 we are dependent on international operations, we will be subject to various additional political, economic and other uncertainties. Among other risks, our 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 restrictive regulations.

**5 Restricted Cash**

Restricted cash consisted of the following at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Restricted Cash Escrow	\$ 1,400,000	\$ 1,400,000
Restricted Cash Secured deposit	3,900,000	
	<b>\$ 5,300,000</b>	<b>\$ 1,400,000</b>

Restricted cash of \$1,400,000 at June 30, 2005 and December 31, 2004 relates to money placed in a third party escrow account in October 2004, to fund part of the horizontal development program, of which WEUS Holding Inc., a subsidiary of Weatherford International Limited ( Weatherford ) is the primary contractor, at the Ninotsminda and Samgori Fields in Georgia These funds were disbursed to the contractor in July 2005 in accordance with the terms of the escrow agreement.

In the first quarter of 2005 we funded a certificate of deposit in the amount of \$3,900,000 to secure the issuance of a letter of credit as required under the rig rental and drilling contract we entered into with Saipem, S.p.A. Under the terms of the letter of credit \$1,100,000 was released and became unrestricted cash in July 2005. The remaining deposits are due to become unrestricted in October (\$2,250,000) and December 2005 (\$550,000).

**Table of Contents****6 Accounts Receivable**

Accounts receivable at June 30, 2005 and December 31, 2004 consisted of the following:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Trade receivables before allowance for doubtful debts	\$ 1,032,226	\$ 1,081,055
Allowance for doubtful debts	(917,105)	(866,239)
Due from Samgori PSC partner	1,080,190	1,057,534
Insurance receivable	314,024	1,047,359
Other receivables	104,096	206,733
	<b>\$ 1,613,431</b>	<b>\$ 2,526,442</b>

Bad debt expense for the six month period ended June 30, 2005 and June 30, 2004 was \$50,866 and \$0 respectively.

In September 2004, a blow-out occurred at the N100 well on the Ninotsminda Field. Our insurers will cover 80% of the costs associated with the blow out up to a maximum cover of \$2,500,000. We received \$800,000 from our insurers in the second quarter of 2005 in respect of costs incurred to date. As of June 30, 2005 and December 31, 2004, \$314,024 and \$1,047,359 was recorded as a receivable, respectively.

Included in receivables as of June 30, 2005 and December 31, 2004 was \$1,080,190 and \$1,057,534, respectively, due from Georgian Oil Samgori Limited ( GOSL ) for its share of capital expenditure, on the planned horizontal well drilling program on the Samgori Field. We have funded 100% of the costs so far and should GOSL not be in a position to or elect not to fund its share of the program costs, we are entitled to continue the project at our sole risk at which time the receivable would be transferred to oil and gas properties. We would be entitled to 100% of the contractor's share of any incremental production resulting from the sole risk operations where we were the party undertaking the sole risk.

**7 Inventory**

Inventory of crude oil at June 30, 2005 and December 31, 2004 consisted of the following:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Crude oil	\$ 691,527	\$ 253,858
	<b>\$ 691,527</b>	<b>\$ 253,858</b>

**Table of Contents****8 Capital Assets**

Capital assets, net of accumulated depreciation and impairment, include the following at June 30, 2005:

	Cost	Accumulated Depreciation And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	\$ 74,014,441	\$ (24,181,220)	\$ 49,833,221
Unproved properties	39,505,594		39,505,594
	113,520,035	(24,181,220)	89,338,815
Property and Equipment			
Oil and gas related equipment	15,126,444	(4,919,704)	10,206,740
Office furniture, fixtures and equipment and other	747,141	(285,968)	461,173
	15,873,585	(5,205,672)	10,667,913
	\$ 129,393,620	\$ (29,386,892)	\$ 100,006,728

Capital assets, net of accumulated depreciation and impairment, include the following at December 31, 2004:

	Cost	Accumulated Depreciation And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	\$ 61,458,503	\$ (23,382,448)	\$ 38,076,055
Unproved properties	25,102,945		25,102,945
	86,561,448	(23,382,448)	63,179,000
Property and Equipment			
Oil and gas related equipment	14,119,443	(4,693,368)	9,426,075
Office furniture, fixtures and equipment and other	689,439	(298,848)	390,591
	14,808,882	(4,992,216)	9,816,666
	\$ 101,370,330	\$ (28,374,664)	\$ 72,995,666

**Oil and Gas Properties**

Unproved property additions relate to our exploration activity in the period. Oil and gas related equipment includes new or refurbished drilling rigs and related equipment.



Property and Equipment

Oil and gas related equipment includes drilling rigs and related equipment currently in use by us in the development of the Ninotsminda, Norio and Samgori Fields.

**Table of Contents**9 Prepaid financing fees

Prepaid financing fees at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Commission and Professional fees	\$ 550,250	\$ 648,507
	<b>\$ 550,250</b>	<b>\$ 648,507</b>

Prepaid financing fees as at June 30, 2005 are corporate finance fees incurred in respect of the US-based investment fund Cornell Capital Partners, LP ( Cornell Capital ) Promissory Note and the additional Ozturk Long Term Loan with Detachable Warrants, both discussed in Note 11.

As at December 31, 2004, commissions and professional fees related to the Standby Equity Distribution Agreement ( SEDA ) dated February 11, 2004 between CanArgo and Cornell Capital were included in Prepaid financing fees.

10 Investments in and Advances to Oil and Gas and Other Ventures

As discussed in Note 2, on June 9, 2005 we acquired 100% ownership of Tethys Petroleum Investments Limited. A summary of our net investment in and advances to oil and gas and other ventures consisted of the following at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Kazakhstan Through 45% ownership of Tethys Petroleum Investments Limited	\$	\$ 683,862
Total Investments in and Advances to Oil and Gas and Other Ventures	\$	\$ 683,862
Equity in Profit (Loss) of Oil and Gas and Other Ventures		
Kazakhstan		(205,230)
Cumulative Equity in Profit (Loss) of Oil and Gas and other ventures		(205,230)
Total Investments in and Advances to Oil and Gas and Other Ventures, Net of Equity Loss	\$	\$ 478,632

**Table of Contents**11 Loans Payable and Long Term Debt

Loans payable at June 30, 2005 and December 31, 2004 consisted of the following:

	June 30, 2005 (Unaudited)	December 31, 2004 (Audited)
Short term loans payable		
Promissory Notes	10,200,000	1,500,000
Loans payable	\$ 10,200,000	\$ 1,500,000
Long term debt		
Long term loans with detachable warrants	\$ 1,050,000	\$ 1,050,000
Unamortized debt discount	(152,345)	(217,835)
Long term debt	\$ 897,655	\$ 832,165

On April 26, 2005 we signed a promissory note with Cornell Capital whereby Cornell Capital agreed to advance us the sum of \$15 million ( Promissory Note ) under the following terms:

This \$15 million and interest at a rate of 7.5% per annum was payable either in cash or using the net proceeds of drawdowns under the SEDA, within 270 calendar days from the date of the Promissory Note. Pursuant to the terms of the Promissory Note, we escrowed 25 requests for advances under the SEDA each in an amount not less than \$600,000 and one advance of \$289,726.03 (representing estimated interest) together with 16,938,558 shares of CanArgo common stock. The escrow agent releases requests every 7 calendar days from May 2, 2005 provided we have not previously made a payment to Cornell Capital in cash. We have the ability at our sole discretion upon 24 hours prior written notice to Cornell Capital to repay all and any amounts due under the Promissory Note in immediately available funds and withdraw any advance notices yet to be effected.

As disclosed in Note 20, the Promissory Note was repaid in full in cash on August 1, 2005, all escrowed advances cancelled and 7,260,647 shares of CanArgo common stock are being returned from escrow. On July 25, 2005 notice was given to Cornell Capital to terminate the SEDA.

In order to ensure timely procurement of long lead items for our drilling program in Georgia and for working capital purposes during 2004, we entered into a number of loan agreements of which those outstanding during the second quarter 2005 are described below.

**Long Term Loan with Detachable Warrants:** This loan from Salahi Ozturk advanced pursuant to the amended and restated loan and warrant agreement dated August 27, 2004 ( Amended Agreement ) matures in August 2006 unless it has previously been converted. Corporate finance fees of \$50,000 were paid in respect of the loan. Interest is payable quarterly at a rate of 7.5% per annum. The loan is convertible into shares of CanArgo Common Stock at 15% above a market price of \$0.60 in effect when the agreement was reached in August 2004, subject to customary anti-dilution adjustments. We have the option to force conversion of the loan if our share price exceeds 160% of \$0.60 (or \$0.96 per share) for a period of 20 consecutive trading days. No conversion is possible until August 28, 2005.

The Company's stock price at the time of the agreement was \$0.51; consequently, pursuant to EITF 98-5 Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF 00-27 Application of Issue No. 98-5 to Certain Convertible Instruments, the issuance of the loan and detachable warrants resulted in a discount being recorded in the amount of \$263,786, which resulted from the relative fair value of the warrants, as determined using the Black-Scholes model.

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We used the following assumptions to determine the fair value of the debt and warrants:

	Additional Loan
Stock price on date of grant	\$ 0.51
Risk free rate of interest	2.51%
Expected life of warrant months	48
Dividend rate	
Historical volatility	108%

The discounts are being amortized to expense interest over the life of the loan using the effective interest method. The effective interest rate was 18.9%. As of June 30, 2005 we had amortized \$111,440 of the debt discount as interest expense.

Promissory Note: On May 19, 2004, we signed a promissory note with Cornell Capital whereby Cornell Capital agreed to advance us the sum of \$1,500,000. We have repaid the promissory note in full by making a series of takedowns in February and March 2005 under the SEDA.

**12 Other Liabilities**

Other liabilities consisted of the following at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Prepaid sales and oil sales security deposit	\$ 417,452	\$ 2,699,644
Prepaid licence fees	40,000	80,000
Advanced proceeds from the sale of other assets	301,195	301,195
	<b>\$ 758,647</b>	<b>\$ 3,080,839</b>

As of December 31, 2004 prepaid sales and oil sales security deposit included \$2,300,000 arising from security deposit payments under an oil sales agreement with Primrose Financial Group ( Primrose ) dated May 5, 2004. In February 2005, we cancelled the May 2004 oil sales agreement with Primrose, repaid the security deposit in full and concluded a new oil sales agreement.

**13 Accrued Liabilities**

Accrued liabilities consisted of the following at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Drilling contractors	\$ 5,303,730	\$
Professional fees	366,755	93,001
Other	227,149	79,116
	<b>\$ 5,897,634</b>	<b>\$ 172,117</b>

Included in the amounts due to drilling contractors at June 30, 2005 are amounts invoiced by Weatherford totalling \$4,190,230. We have formally notified Weatherford that we dispute the validity of certain billings to the Company

for work Weatherford performed in the first and second quarter of 2005. The

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amount under dispute is approximately \$2.8 million. We have recorded all amounts billed by Weatherford as of June 30, 2005 pending the outcome of the dispute resolution which may require referral to the London Court of International Arbitration for resolution in accordance with the provisions of the contract. As of the date of these financial statements, Weatherford have de-mobilised their equipment from site and are in preparation for moving the equipment out of Georgia.

14 **Minority Interest**

Through our acquisition of 100% of Tethys Petroleum Investments Limited on June 9, 2005 we acquired a 70% ownership interest in the Kazakhstan based limited liability partnership, BN Munai LLP ( BN Munai ). BN Munai has only suffered losses from inception and currently the Company is the only partner funding the current operating losses, therefore, no minority interest is recorded at June 30, 2005 for the 30% ownership not under our control. The Company does not expect the minority partners in BN Munai to contribute funds to the partnership.

In September 2003, CanArgo Norio Limited ( CNL ) signed a Farm-In agreement (the Agreement ) relating to the Norio Production Sharing Agreement (the Norio PSA ) with a wholly owned subsidiary of the Georgian State Oil Company ( Georgian Oil ). Georgian Oil was already a party to the Norio PSA as the commercial representative of the State. The Agreement obligated Georgian Oil to pay up to \$2,000,000 to complete the MK-72 well on the Norio prospect in return for a 15% interest in the contractor share of the Norio PSA. Georgian Oil also had an option (the Option ) exercisable for a limited period after completion of the well, to increase its interest to 50% of the contractor share of the Norio PSA on payment to CNL of \$6,500,000. In accordance with the terms of this Agreement, Georgian Oil invested \$1,758,000 in deepening the MK72 well.

On May 9, 2005 we announced that CNL had signed final documentation with Georgian Oil for CNL to secure 100% of the contractor share in the Norio PSA. On May 20, 2005 we paid Georgian Oil \$1,758,000 to terminate the Agreement and Option and secure a 100% working interest in the Norio PSA.

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	<b>Common Stock</b>					
	<b>Number of Shares Issued and Issuable</b>	<b>Par Value</b>	<b>Additional Paid-In Capital</b>	<b>Deferred Compensation Expense</b>	<b>Accumulated Deficit</b>	<b>Accumulated Deficit</b>
<b>Total, December 31, 2004</b>	<b>195,212,089</b>	<b>\$ 19,521,208</b>	<b>\$ 184,141,618</b>	<b>\$(1,976,102)</b>	<b>\$(104,866,192)</b>	<b>\$ 96,820,532</b>
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	380,836	38,084	469,514			507,598
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	335,653	33,565	458,837			492,402
Exercise of stock options	1,067,833	106,783	255,850			362,633
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	344,758	34,476	498,072			532,548
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	370,599	37,060	562,940			600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	381,170	38,117	561,883			600,000



Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	495,745	49,574	550,426	600,000
Exercise of stock options	1,570,000	157,000	11,000	168,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	552,639	55,264	544,736	600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	473,634	47,363	552,637	600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	837,054	<b>83,705</b>	516,295	600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	813,670	<b>81,367</b>	518,633	600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	872,854	<b>87,285</b>	512,715	600,000
Shares Issued pursuant to Standby Equity Distribution agreement	847,458	<b>84,746</b>	515,254	600,000

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(Cornell Capital)

Shares Issueable pursuant to consultancy agreement (CEOCast)	80,000	8,000	45,600			53,600
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	801,068	<b>80,107</b>	519,893			600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	812,348	<b>81,235</b>	518,765			600,000
Shares Issued pursuant to Tethys buy-out	11,000,000	1,100,000	7,260,000			8,360,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	639,591	<b>63,959</b>	536,041			600,000
Shares Issued pursuant to Standby Equity Distribution agreement (Cornell Capital)	596,421	<b>59,642</b>	540,358			600,000
Stock based compensation under SFAS 123			699,493	142,677		842,170
Share issue costs			(1,040,634)			(1,040,634)
Net Loss					(4,729,959)	(4,729,959)
<b>Total, June 30, 2005</b>	<b>218,485,420</b>	<b>\$21,848,540</b>	<b>\$199,749,926</b>	<b>\$(1,833,425)</b>	<b>\$(109,596,151)</b>	<b>\$110,168,890</b>



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On February 11, 2004, we entered into a Standby Equity Distribution Agreement ( SEDA ) that allowed us, at our option, periodically to issue shares of our common stock to US-based investment fund Cornell Capital. On February 03, 2005, the SEC declared effective the registration statement on Form S-3 (Reg. No. 333-115261) originally filed by us on May 6, 2004 in respect of the shares issuable under the SEDA. Under the terms of the SEDA, Cornell Capital will provide us with an equity line of credit for 24 months from the date the registration statement became effective. The maximum aggregate amount of the equity placements pursuant to the SEDA is \$20,000,000. Subject to this limitation, we can draw down up to \$600,000 in any seven trading-day period (a Put ). The SEDA could be used in whole or in part entirely at our discretion. Shares issued to Cornell Capital would be priced at a 3% discount to the lowest daily Volume Weighted Closing Bid Price ( VWAP ) of CanArgo common shares traded on the Oslo Stock Exchange ( OSE ) for each of the five consecutive trading days immediately following a draw down notice by CanArgo. For each share of common stock purchased under the SEDA, Cornell Capital received a substantial discount to the current market price of CanArgo common stock. The level of the total discount varied depending on the market price of our stock and the amount drawn down under the SEDA. Such discounts comprised (1) 3% discount to, the lowest volume weighted average price of our common stock; (2) 5% of the proceeds that we receive for each advance under the SEDA; and (3) a commitment fee. The commitment fee, which has been paid, consisted of \$10,000 in cash and 850,000 shares of our common stock. On July 25, 2005, we issued to Cornell Capital a notice to terminate the SEDA.

As of August 8, 2005, we have received \$12,332,548 proceeds net of \$285,749 of discounts (excluding the commitment fee of \$10,000 and 850,000 shares of common stock previously paid to Cornell Capital) pursuant to twenty one takedowns under the SEDA in which we issued a total of 13,012,945 shares of our common stock to Cornell Capital at an average price of \$0.9477 per share. From these proceeds, \$1,532,548 was used to repay the promissory note of \$1,500,000 plus accrued interest on the note of \$32,548 to Cornell Capital and partially repay the promissory note of \$15,000,000, referred to below.

On April 26, 2005 we signed a promissory note with Cornell Capital whereby Cornell Capital agreed to advance us the sum of \$15,000,000. This amount and interest at a rate of 7.5% per annum was payable either in cash or using the net proceeds of drawdowns under the SEDA, within 270 days from the date of the promissory note. (See Notes to Unaudited Consolidated Condensed Financial Statements, Item 10 Loans Payable and Long Term Debt above for a more detailed discussion). As disclosed in Note 20, the Promissory Note was repaid in full in cash on August 1, 2005.

On June 9, 2005 we issued 11,000,000 shares of CanArgo Common Stock by way of exchange for 55% of the share capital of Tethys Petroleum Investments Limited, ( Tethys ), thereby making Tethys a wholly owned subsidiary of CanArgo. (See Notes to Unaudited Consolidated Condensed Financial Statements, Item 2 Business Combination above for a more detailed discussion).

**16 Net Income (Loss) Per Common Share**

Earnings (loss) per share is calculated in accordance with SFAS No. 128, Earnings Per Share. Basic and diluted earnings per share are provided for continuing operations, discontinued operations and net income (loss). Basic earnings (loss) per share is computed based upon the weighted average number of shares of common stock outstanding for the period and excludes any potential dilution. Diluted earnings per share reflects potential dilution from the exercise of securities (warrants, options and convertible debt) into common stock.

Basic and diluted net loss per common share for the six months and three months periods ended June 30, 2005 and June 30, 2004 were based on the weighted average number of common shares outstanding during those periods. Options and warrants to purchase CanArgo's Common Stock were outstanding during the six months ended June 30, 2005 were not included in the computation of diluted net loss per common share because the effect of such inclusion would have been anti-dilutive. The total number of such shares excluded from diluted net loss per common share were 11,771,000 for the six months ended June 30, 2005.



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	<b>June 30, 2005</b>	June 30, 2004
Weighted average number of basic shares outstanding	200,964,431	109,868,598
Effect of:		
Employee and director stock options		2,822,050
 Weighted average number of dilutive shares outstanding	 <b>200,964,431</b>	 112,690,648

17 Commitments and Contingencies

We have contingent obligations and may incur additional obligations, absolute and contingent, with respect to the acquisition and development of oil and gas properties and ventures in which we have interests that require or may require us to expend funds and to issue shares of our Common Stock.

At June 30, 2005, we had the contingent obligation to issue an aggregate of 187,500 shares of our Common Stock to Fielden Management Services PTY, Ltd (a third party management services company), subject to the satisfaction of conditions related to the achievement of specified performance standards by the Stynawske Field project, an oil field in Ukraine in which we had a previous interest.

Under the Production Sharing Contract for Blocks XI<sup>G</sup> and XI<sup>H</sup> (the Tbilisi PSC ) in the Republic of Georgia our subsidiary CNL will acquire additional seismic data within three years of the effective date of the contract which is September 29, 2003. The total commitment over the next thirteen months is \$350,000.

In 2002, the Participation Agreement for the three well exploration program on the Ninotsminda /Manavi area with AES Gardabani (a subsidiary of AES Corporation) ( AES ) was terminated without AES earning any rights to any of the Ninotsminda / Manavi area reservoirs. We therefore have no present obligations in respect of AES. However, under a separate Letter of Agreement, if gas from the Sub Middle Eocene is discovered and produced from the exploration area covered by the Participation Agreement, AES will be entitled to recover at the rate of 15% of future gas sales from the Sub Middle Eocene, net of operating costs, approximately \$7,500,000, representing their prior funding under the Participation Agreement.

In April 2004, we acquired a 50% interest in the Samgori (Block XI<sup>B</sup>) Production Sharing Contract ( Samgori PSC ) in Georgia. This interest was acquired from Georgian Oil Samgori Limited ( GOSL ), a company wholly owned by Georgian Oil, by one of our subsidiaries, CanArgo Samgori Limited ( CSL ). Under the terms of the agreement dated January 8, 2004, up to 10 horizontal wells will be drilled on the Samgori Field. Completion of well S302, which was funded 100% by us, satisfied our commitment to GOSL under the acquisition agreement. It is planned that the remainder of the drilling program will be funded jointly by CSL and GOSL, the Contractor parties, pro rata to their interest in the Samgori PSC. The total cost to us of participating in the whole program, which is due to be completed by June 2008, is anticipated to be up to \$13,500,000.

The original Contractor party to the Samgori PSC, National Petroleum Limited ( NPL ), has an option to reacquire its Contractor s interest in the Samgori PSC and its 50% interest in the operating company in the event that the agreed work program is not completed in part by September 2006 and in full by June 2008. Furthermore, NPL has outstanding costs and expenses of \$37,528,964 in relation to the Samgori PSC which are recoverable by NPL receiving 30% of annual net profit from the Field until such costs have been fully repaid. Under the Samgori PSC, up to 50% of petroleum produced under the contract is allocated to the Contractor parties for the recovery of the cumulative allowable capital, operating and other project costs associated with the Samgori Field and exploration

in Block XI<sup>B</sup> ( Cost Recovery Oil ). The cost recovery pool includes the \$37,528,964 costs previously incurred by NPL. The balance of production ( Profit Oil ) is allocated on a 50/50 basis between the State and the Contractor parties respectively. While GOSL and CSL continue to have unrecovered costs, they will receive 75% of total production (net 37.5% to us). After

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recovery of their cumulative capital, operating and other allowable project costs including the NPL costs, the Contractor parties will receive 30% of Profit Oil (net 15% to us). The allocation of a share of production to the State, however, relieves the Contractor parties of all obligations they would otherwise have to pay the Republic of Georgia for taxes, duties and levies related to activities covered by the Samgori PSC. After NPL's costs are repaid from either Field production or other production in the PSC (in the event that new fields are developed in areas identified using seismic surveys originally performed by NPL), NPL shall continue to receive 5% of annual net profit.

Under the Samgori PSC, Georgian Oil as the State representative in the contract is entitled to receive up to 250,000 tons (approximately 1.6 million barrels) of oil ( Base Level Oil ) from a maximum of 50% per calendar quarter of production when the value of the cumulative Cost Recovery Oil, cumulative Cost Recovery Natural Gas, cumulative Profit Oil and cumulative Profit Natural Gas delivered to the Contractor parties exceeds the cumulative allowable capital, operating and other project costs including finance costs associated with the Samgori Field and exploration in Block XI<sup>B</sup> and the NPL costs. While Base Level Oil is being delivered to Georgian Oil, the Contractor parties will continue to be entitled to a maximum of 50% of the remaining Profit Oil. The Base Level Oil is an estimate of the amount of oil that Georgian Oil would have expected to produce from the contract area had the State not come to a contractual arrangement with the previous Contractor party in 1996.

Upon completion of the acquisition of an interest in the Samgori PSC we had a contractual obligation to issue 4,000,000 shares of CanArgo Common Stock to Europa Oil Services Limited ( Europa ), an unaffiliated company in connection with a consultancy agreement with Europa in relation to this acquisition. On April 16, 2004 Europa was issued with 4,000,000 restricted shares of CanArgo Common Stock in an arms length transaction. A further 12,000,000 shares of CanArgo Common Stock are issuable upon certain production targets being met from future developments under the Samgori PSC.

In September 2004, a blow-out occurred at the N100 well on the Ninotsminda Field. The Company currently estimates that the total costs attributable to the blow-out, including compensation and cleaning of the environment will be \$2,000,000. The Company's insurance policies cover 80% of these costs up to a maximum of \$2,500,000 and the remaining 20% insurance retention being payable by the Company. On June 3, 2005 we received \$800,000, as a first installment, from our insurance company.

18 Discontinued OperationsCanArgo Standard Oil Products Limited

In September 2002, we approved a plan to sell our interest in CanArgo Standard Oil Products Limited ( CSOP ), a petroleum product retail business in Georgia, to finance our exploration and production activities. In October 2002, we reached agreement with Westrade Alliance LLC, an unaffiliated company, to sell our wholly owned subsidiary, CanArgo Petroleum Products Limited ( CPPL ), which held our 50% interest in CSOP for \$4,000,000 in an arms-length transaction, with legal ownership being transferred upon receipt of final payment due originally in August 2003 and subsequently extended. The total payment received in 2004 was \$1,857,000 with the final payment of the consideration received by us in December 2004 at which time we transferred our ownership in CPPL to Westrade Alliance LLC.



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The results of discontinued operations in respect of CSOP consisted of the following for the six month period ended June 30, 2004:

	<b>June 30, 2005 (Unaudited)</b>	June 30, 2004 (Unaudited)
Operating Revenues	\$	5,735,542
Loss Before Income taxes and Minority Interest		106,956
Income Taxes		41,278
Minority Interest in Loss		(74,117)
Net Loss from Discontinued Operation	\$	\$ 74,117

The results of discontinued operations in respect of CSOP consisted of the following for the three month period ended June 30, 2004:

	<b>June 30, 2005 (Unaudited)</b>	June 30, 2004 (Unaudited)
Operating Revenues	\$	3,209,779
Loss Before Income taxes and Minority Interest		109,261
Income Taxes		
Minority Interest in Loss		(54,631)
Net Loss from Discontinued Operation	\$	\$ 54,630

**Lateral Vector Resources Inc**

Lateral Vector Resources Inc. ( LVR ), a wholly-owned subsidiary of CanArgo, negotiated and concluded with Ukrnafta, the Ukrainian State Oil Company, a Joint Investment Production Activity ( JIPA ) agreement in 1998 to develop the Bugruvativske Field located in Eastern Ukraine.

In 2003, due to the lack of progress with the implementation of the JIPA, and failure to reach a negotiated agreement with Ukrnafta, management reached the decision to dispose of its interest in the Bugruvativske project and withdraw from Ukraine. Consequently, we recorded in 2003 a write-down in respect to the LVR deal and the acquisition of the Bugruvativske Field of approximately \$4,790,727.

On May 28, 2004, we announced that pursuant to a signed agreement between CanArgo Acquisition Corporation, our wholly owned subsidiary, and Stanhope Solutions Ltd., we had completed a transaction to sell our interest in the Bugruvativske Field through the disposal of LVR for \$2,000,000. We received \$250,000 as an initial payment and will receive the remaining \$1,750,000 if certain production targets are achieved on the project.

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The results of discontinued operations in respect of LVR consisted of the following for the six month period ended June 30, 2004:

	<b>June 30, 2005</b>	June 30, 2004
	<b>(Unaudited)</b>	(Unaudited)
Loss (Income) Before Income taxes and Minority Interest	\$	\$ 3,026
Net Loss (Income) from Discontinued Operation	\$	\$ 3,026

The results of discontinued operations in respect of LVR consisted of the following for the three month period ended June 30, 2004:

	<b>June 30, 2005</b>	June 30, 2004
	<b>(Unaudited)</b>	(Unaudited)
Loss (Income) Before Income taxes and Minority Interest	\$	\$ (11,092)
Net Loss (Income) from Discontinued Operation	\$	\$ (11,092)

**Georgian American Oil Refinery**

In 2003, we approved a plan to dispose of our interest in the Georgian American Oil Refinery Limited ( GAOR ) as the refinery had remained closed since 2001 and neither we nor our partners could find a commercially viable option to putting the refinery back into operation. In February 2004, we reached agreement with a local Georgian company to sell our 51% interest in GAOR for a nominal price of one US dollar and the assumption of all the obligations and debts of GAOR to the State of Georgia including deferred tax liabilities of approximately \$380,000. The gain recorded on disposition of GAOR was \$330,923.

The results of operations of GAOR have been classified as discontinued for all periods presented. Net income from discontinued operations is disclosed net of taxes and minority interest. The plan to dispose of the asset led to the write-off of an inter-company payable relating to oil sales purchased from Ninotsminda Oil Company Limited. These items have been respectively recorded in impairment of other assets and other income (expense) components of continuing operations.

The results of discontinued operations in respect of GAOR consisted of the following for the six months ended June 30, 2004:

	<b>June 30, 2005</b>	June 30, 2004
	<b>(Unaudited)</b>	(Unaudited)
Operating Revenues	\$	\$
Loss (Income) Before Income taxes and Minority Interest		
Minority Interest in Loss		(523,968)
Net Loss (Income) from Discontinued Operation	\$	\$ (523,968)



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The results of discontinued operations in respect of GAOR consisted of the following for the three months ended June 30, 2004:

	<b>June 30, 2005 (Unaudited)</b>	June 30, 2004 (Unaudited)
Operating Revenues	\$	\$
Loss (Income) Before Income taxes and Minority Interest		
Minority Interest in Loss		
Net Loss (Income) from Discontinued Operation	\$	\$

**3-megawatt duel fuel power generator**

In 2003, we signed a sales agreement disposing of a 3-megawatt duel fuel power generator for \$600,000. Following receipt of a non-refundable deposit of \$300,000, the unit was shipped to the US for testing. The test was completed at the beginning of 2005 and we expect the generator will be delivered to the buyer in the near future following receipt of the final payment.

The generator has been classified as Assets held for sale for all periods presented.

Gross consolidated assets in respect of the generator included in assets held for sale consisted of the following at June 30, 2005 and December 31, 2004:

	<b>June 30, 2005 (Unaudited)</b>	December 31, 2004 (Audited)
Assets held for sale:		
Capital assets, net	\$ 600,000	\$ 600,000
	\$ 600,000	\$ 600,000

**19 Segment and Geographical Data**

The segment and geographical data below is presented for the six and three month periods ended June 30, 2005. For the six and three month periods ended June 30, 2004 the Republic of Georgia represented the only geographical segment.

Operating revenues from continued operations for the six month periods ended June 30, 2005 by geographical area were as follows:

**June 30,  
2005  
(Unaudited)**

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Oil and Gas Exploration, Development And Production	
Republic of Georgia	\$ 2,566,209
Republic of Kazakhstan	
Total	\$ 2,566,209

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Operating revenues from continued operations for the three month periods ended June 30, 2005 by geographical area were as follows:

	<b>June 30, 2005 (Unaudited)</b>
Oil and Gas Exploration, Development And Production	
Republic of Georgia	\$ 1,232,532
Republic of Kazakhstan	
Total	\$ 1,232,532

Operating loss income from continued operations for the six month periods ended June 30, 2005 by geographical area was as follows:

	<b>June 30, 2005 (Unaudited)</b>
Oil and Gas Exploration, Development And Production	
Republic of Georgia	\$ (52,187)
Republic of Kazakhstan	
Corporate and Other Expenses	(4,363,975)
Total Operating Loss	\$ (4,416,162)

Operating income (loss) income from continued operations for the three month periods ended June 30, 2005 by geographical area was as follows:

	<b>June 30, 2005 (Unaudited)</b>
Oil and Gas Exploration, Development And Production	
Republic of Georgia	\$ 40,998
Republic of Kazakhstan	
Corporate and Other Expenses	(2,250,422)
Total Operating Loss	\$ (2,209,404)

Net (loss) income before minority interest from continuing operations for the six month periods ended June 30, 2005 by geographic area was as follows:

	<b>June 30, 2005 (Unaudited)</b>
Oil and Gas Exploration, Development And Production Republic of Georgia Republic of Kazakhstan	\$ (52,187)
Corporate and Other Expenses	(4,677,772)
Net (Loss) Income Before Minority Interest	\$ (4,729,959)

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Net (loss) income before minority interest from continuing operations for the three month periods ended June 30, 2005 by geographic area was as follows:

	<b>June 30, 2005 (Unaudited)</b>
Oil and Gas Exploration, Development And Production	
Republic of Georgia	\$ 40,998
Republic of Kazakhstan	
Gain on sale of refinery	
Republic of Georgia	
Corporate and Other Expenses	(2,297,481)
Net (Loss) Income Before Minority Interest	\$ (2,256,483)

The segment and geographical data below is presented as of June 30, 2005. As of December 31, 2004 the Republic of Georgia represented the only geographical segment.

Identifiable assets of continuing and discontinued operations as of June 30, 2005 by business segment and geographical area were as follows:

	<b>June 30, 2005 (Unaudited)</b>
Corporate	
Republic of Georgia	\$ 590,884
Republic of Kazakhstan	
Western Europe (principally cash)	29,996,815
Total Corporate	30,587,699
Oil and Gas Exploration, Development and Production	
Republic of Georgia	89,169,284
Republic of Kazakhstan	10,342,938
Assets Held for Sale	
Western Europe	600,000
Total Identifiable Assets	\$ 130,699,921

20 **Subsequent Events**

On July 25, 2005, we announced that we had closed the private placement of a \$25,000,000 issue of Senior Convertible Secured Loan Notes ( SCSLN ) with a group of investors arranged by Ingalls & Snyder LLC of New York



City.

The proceeds of this financing, after the payment of all professional and placing expenses and fees estimated at \$550,000, have been used to redeem short term debt in the amount of approximately \$7,400,000 under the Promissory Note with Cornell Capital to fund the appraisal of a new gas project in Georgia, to fund the development of the Kzyloy Gas Field in Kazakhstan and adjacent exploration areas, and for additional working capital for our development, appraisal and exploration activities in Georgia. In addition, we are terminating the SEDA which we currently have with Cornell Capital.

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In connection with the SCSLN we entered into a Note Purchase Agreement with a group of private investors (the Purchasers), all of whom represented that they qualified as accredited investors under Rule 501(a) promulgated under the Securities Act of 1933, as amended (the Securities Act). Pursuant to the Note Purchase Agreement, we issued a note due July 25, 2009 in the aggregate principal amount of \$25,000,000 to Ingalls & Snyder LLC, as nominee for the Purchasers, in a transaction intended to qualify for an exemption from registration under the Securities Act pursuant to Section 4(2) thereof and Regulation D promulgated thereunder. For purposes hereof each of the Purchasers is deemed a beneficial holder of the Note and such Purchasers may each be assigned their own Note as provided in the Note Purchase Agreement and, accordingly, all such Notes are referred to herein collectively as the Note and any such Purchaser or its assignee is referred to herein as a holder of the Note.

The terms of the Note Purchase Agreement and related agreements include the following:

*Interest.* The unpaid principal balance under the Note bears interest (computed on the basis of a 360-day year of twelve 30-day months) (a) at increasing rates ranging from 3% per annum from the date of issuance to December 31, 2005; 10% per annum from January 1, 2006 until December 31, 2006; and 15% per annum from January 1, 2007 until final payment, payable semi-annually, on June 30<sup>th</sup> and December 30<sup>th</sup>, commencing December 30, 2005, until the principal shall have become due and payable and (b) at 3% per annum above the applicable rate on any overdue payments of principal and interest.

*Optional Prepayments.* CanArgo may, at its option, upon at least not less than 90 days and not more than 120 days prior written notice, prepay at any time and from time to time after July 31, 2006, all or any part of the Note, in a principal amount of not less than \$100,000 at the following Redemption Prices (expressed as percentages of the principal amount so prepaid): 105% after July 31, 2006; 104% after January 1, 2007; 103% after July 1, 2007; 102% after January 1, 2008; 101% after July 1, 2008, and 100% after January 1, 2009, together with all accrued and unpaid interest.

*Mandatory Prepayment.* CanArgo shall offer to prepay all, but not less than all, of the Note, on not less than 15 business days prior written notice, in the event of an occurrence of a Change of Control or Control Event. *Change in Control* is defined to mean (a) if CanArgo shall at any time cease to be a publicly held company or cease to have its capital stock traded on an exchange or (b) a transaction or series of related transactions pursuant to which (i) at least fifty-one percent (51%) of the outstanding shares of CanArgo's common stock or, on a fully diluted basis, shall subsequent to July 25, 2005 be owned by any person which is not related to or affiliated with CanArgo, (ii) if CanArgo merges into or with, consolidates with or effects any plan of share exchange or other combination with any person which is not related to or affiliated with CanArgo, or (iii) if CanArgo disposes of all or substantially all of its assets other than in the ordinary course of business and *Control Event* is defined to mean (i) the execution by CanArgo or any material subsidiary of CanArgo which has guaranteed the indebtedness evidenced by the Note (a CanArgo Group Member) of any agreement or letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, may reasonably be expected to result in a Change in Control, or (ii) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control.

*Conversion.* The Note is convertible, at the option of holders, into shares of CanArgo common stock (Conversion Stock) at a conversion price per share of \$0.90 (the Conversion Price), which is subject to adjustment: (a) if CanArgo issues any equity securities (other than pursuant to the granting of employee stock options pursuant to shareholder approved employee stock option plans or existing outstanding options, warrants and convertible securities) at a price per share of less than \$0.90 per share net of all fees, costs and expenses in which case the Conversion Price will be reset to such lower price and (b) i