

GRAN TIERRA ENERGY, INC.  
Form 10-Q  
November 05, 2010

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 September 30, 2010  
OR

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 001-34018

GRAN TIERRA ENERGY INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

98-0479924  
(I.R.S. employer  
identification number)

300, 625 11th Avenue S.W.  
Calgary, Alberta, Canada  
(Address of principal executive offices)

T2R 0E1  
(Zip code)

(403) 265-3221  
(Registrant's telephone number,  
including area code)

Indicate by check mark 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 submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
(do not check if a smaller reporting company) Smaller Reporting

Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

On November 2, 2010, the following numbers of shares of the registrant's capital stock were outstanding: 238,591,271 shares of the registrant's Common Stock, \$0.001 par value; one share of Special A Voting Stock, \$0.001 par value, representing 7,811,112 shares of Gran Tierra Goldstrike Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock; and one share of Special B Voting Stock, \$0.001 par value, representing 10,657,065 shares of Gran Tierra Exchangeco Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock.

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## PART I - FINANCIAL INFORMATION

## ITEM 1 - FINANCIAL STATEMENTS

Gran Tierra Energy Inc.

Condensed Consolidated Statements of Operations and Retained Earnings (Accumulated Deficit) (Unaudited)

(Thousands of U.S. Dollars, Except Share and Per Share Amounts)

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	2010	2009	2010	2009
<b>REVENUE AND OTHER INCOME</b>				
Oil and natural gas sales	\$ 84,110	\$ 75,171	\$ 260,759	\$ 166,606
Interest	459	183	1,034	824
	84,569	75,354	261,793	167,430
<b>EXPENSES</b>				
Operating	19,401	9,099	39,028	25,063
Depletion, depreciation, accretion, and impairment	35,254	35,246	107,238	95,466
General and administrative	10,977	7,076	27,848	19,226
Derivative financial instruments (gain) loss (Note 10)	-	(77)	(44)	207
Foreign exchange loss	16,320	18,867	33,740	32,353
	81,952	70,211	207,810	172,315
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>				
Income tax expense (Note 7)	2,617	5,143	53,983	(4,885)
	(5,894)	(7,959)	(29,929)	(11,999)
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>				
RETAINED EARNINGS (ACCUMULATED DEFICIT), BEGINNING OF PERIOD	(3,277)	(2,816)	24,054	(16,884)
RETAINED EARNINGS (ACCUMULATED DEFICIT), END OF PERIOD	48,256	(7,084)	20,925	6,984
	\$ 44,979	\$ (9,900)	\$ 44,979	\$ (9,900)
<b>NET (LOSS) INCOME PER SHARE — BASIC</b>				
NET (LOSS) INCOME PER SHARE — DILUTED	\$ (0.01)	\$ (0.01)	\$ 0.10	\$ (0.07)
	\$ (0.01)	\$ (0.01)	\$ 0.09	\$ (0.07)
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC (Note 5)</b>				
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED (Note 5)	254,951,642	242,232,717	252,487,462	240,585,878
	254,951,642	242,232,717	260,294,503	240,585,878

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.  
Condensed Consolidated Balance Sheets (Unaudited)  
(Thousands of U.S. Dollars, Except Share and Per Share Amounts)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 308,396	\$ 270,786
Restricted cash	290	1,630
Accounts receivable	73,089	35,639
Inventory (Note 2)	5,479	4,879
Taxes receivable	2,310	1,751
Prepays	1,810	1,820
Deferred tax assets (Note 7)	2,683	4,252
<b>Total Current Assets</b>	<b>394,057</b>	<b>320,757</b>
Oil and Gas Properties (using the full cost method of accounting)		
Proved	431,952	474,679
Unproved	270,479	234,889
<b>Total Oil and Gas Properties</b>	<b>702,431</b>	<b>709,568</b>
Other capital assets	5,135	3,175
<b>Total Property, Plant and Equipment (Note 4)</b>	<b>707,566</b>	<b>712,743</b>
Other Long Term Assets		
Restricted cash	846	162
Deferred tax assets (Note 7)	7,493	7,218
Other long term assets	319	347
Goodwill	102,581	102,581
<b>Total Other Long Term Assets</b>	<b>111,239</b>	<b>110,308</b>
<b>Total Assets</b>	<b>\$ 1,212,862</b>	<b>\$ 1,143,808</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable (Note 8)	\$ 37,682	\$ 36,786
Accrued liabilities (Note 8)	47,560	40,229
Derivative financial instruments (Note 10)	-	44
Taxes payable	38,541	28,087
Asset retirement obligation (Note 6)	36	450
<b>Total Current Liabilities</b>	<b>123,819</b>	<b>105,596</b>

<b>Long Term Liabilities</b>		
Deferred tax liabilities (Note 7)	213,451	216,625
Deferred remittance tax	1,453	903
Asset retirement obligation (Note 6)	5,025	4,258
<b>Total Long Term Liabilities</b>	<b>219,929</b>	<b>221,786</b>
<b>Commitments and Contingencies (Note 9)</b>		
<b>Shareholders' Equity</b>		
Common shares (Note 5)	4,128	1,431
(238,161,748 and 219,459,361 common shares and 18,699,854 and 24,639,513 exchangeable shares, par value \$0.001 per share, issued and outstanding as at September 30, 2010 and December 31, 2009 respectively)		
Additional paid in capital	817,505	766,963
Warrants	2,502	27,107
Retained earnings	44,979	20,925
<b>Total Shareholders' Equity</b>	<b>869,114</b>	<b>816,426</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,212,862</b>	<b>\$ 1,143,808</b>

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
(Thousands of U.S. Dollars)

	Nine Months Ended September 30,	
	2010	2009
<b>Operating Activities</b>		
Net income (loss)	\$ 24,054	\$ (16,884)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation, accretion, and impairment	107,238	95,466
Deferred taxes (Note 7)	(28,026)	(5,650)
Stock based compensation (Note 5)	5,424	3,483
Unrealized (gain) loss on financial instruments (Note 10)	(44)	294
Unrealized foreign exchange loss	27,136	32,982
Settlement of asset retirement obligations (Note 6)	(263)	(52)
Net changes in non-cash working capital		
Accounts receivable	(35,195)	(68,633)
Inventory	1	(286)
Prepays	10	102
Accounts payable and accrued liabilities	(8,402)	6,501
Taxes receivable and payable	9,455	(12,296)
<b>Net cash provided by operating activities</b>	<b>101,388</b>	<b>35,027</b>
<b>Investing Activities</b>		
Restricted cash	656	(1,892)
Additions to property, plant and equipment	(88,954)	(65,595)
Proceeds from disposition of oil and gas property	1,600	4,800
Long term assets and liabilities	28	248
<b>Net cash used in investing activities</b>	<b>(86,670)</b>	<b>(62,439)</b>
<b>Financing Activities</b>		
Proceeds from issuance of common shares	22,892	2,257
<b>Net cash provided by financing activities</b>	<b>22,892</b>	<b>2,257</b>
Net increase (decrease) in cash and cash equivalents	37,610	(25,155)
Cash and cash equivalents, beginning of period	270,786	176,754
<b>Cash and cash equivalents, end of period</b>	<b>\$ 308,396</b>	<b>\$ 151,599</b>
<b>Cash</b>	<b>\$ 223,320</b>	<b>\$ 66,980</b>
Term deposits	85,076	84,619
<b>Cash and cash equivalents, end of period</b>	<b>\$ 308,396</b>	<b>\$ 151,599</b>
<b>Supplemental cash flow disclosures:</b>		

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Cash paid for taxes	\$	42,024	\$	27,896
<b>Non-cash investing activities:</b>				
Non-cash working capital related to property, plant and equipment	\$	30,747	\$	8,233

(See notes to the condensed consolidated financial statements)



Gran Tierra Energy Inc.  
Condensed Consolidated Statements of Shareholders' Equity (Unaudited)  
(Thousands of U.S. Dollars)

Nine Months Ended    Year Ended  
September 30, 2010    December 31, 2009

	September 30, 2010	December 31, 2009
<b>Share Capital</b>		
Balance, beginning of period	\$ 1,431	\$ 226
Issue of common shares	2,697	1,205
Balance, end of period	4,128	1,431
<b>Additional Paid in Capital</b>		
Balance, beginning of period	766,963	754,832
Issue of common shares	18,354	2,650
Exercise of warrants (Note 5)	24,605	2,777
Exercise of stock options (Note 5)	1,841	1,080
Stock based compensation expense (Note 5)	5,742	5,624
Balance, end of period	817,505	766,963
<b>Warrants</b>		
Balance, beginning of period	27,107	29,884
Exercise of warrants (Note 5)	(24,605)	(2,777)
Balance, end of period	2,502	27,107
<b>Retained Earnings</b>		
Balance, beginning of period	20,925	6,984
Net income	24,054	13,941
Balance, end of period	44,979	20,925
Total Shareholders' Equity	\$ 869,114	\$ 816,426

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

## 1. Description of Business

Gran Tierra Energy Inc., a Nevada corporation (the “Company” or “Gran Tierra”), is a publicly traded oil and gas company engaged in the acquisition, exploration, development and production of oil and natural gas properties. The Company’s principal business activities are in Colombia, Argentina, Peru and Brazil.

## 2. Significant Accounting Policies

These unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements, and revenues and expenses during the reporting period. In the opinion of the Company’s management, all adjustments (all of which are normal and recurring) that have been made are necessary to fairly state the consolidated financial position of the Company as at September 30, 2010, the results of its operations for the three and nine month periods ended September 30, 2010 and 2009, and its cash flows for the nine month periods ended September 30, 2010 and 2009.

The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for interim consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements as at and for the year ended December 31, 2009 included in the Company’s 2009 audited Annual Report on Form 10-K, filed with the Securities and Exchange Commission (“SEC”) on February 26, 2010. The Company’s significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company’s 2009 Annual Report on Form 10-K and are the same policies followed in these unaudited interim consolidated financial statements, except as disclosed below. The Company has evaluated all subsequent events through to the date these unaudited interim consolidated financial statements were issued.

### Inventory

Crude oil inventories at September 30, 2010 and December 31, 2009 are \$4.2 million and \$3.8 million, respectively. Supplies at September 30, 2010 and December 31, 2009 are \$1.3 million and \$1.1 million, respectively.

### New Accounting Pronouncements

#### Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (the “FASB”) issued revised accounting standards to improve financial reporting by enterprises involved with variable interest entities. The standards replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and: (1) the obligation to absorb losses of the entity; or, (2) the right to receive benefits from the entity. This standard was effective for interim and annual reporting periods beginning after November 15, 2009. The implementation of this standard did not materially impact the Company’s consolidated financial position, operating results or cash flows.

#### Fair Value Measurements

In January 2010, the FASB issued Accounting Standards Update (“ASU”), “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements”. This ASU amends existing disclosure requirements about fair value measurements by adding required disclosures about items transferred into and out of levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances, and settlements relative to level 3 measurements; and clarifying, among other things, the existing fair value disclosures about the level of disaggregation. This is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The implementation of this update on January 1, 2010 did not materially impact the Company’s disclosures.

#### Subsequent Events

In February 2010, the FASB issued ASU, "Subsequent Events (Topic 855)." The amendments remove the requirements for an SEC filer to disclose a date, in both issued and revised financial statements, through which subsequent events have been reviewed. This ASU was effective upon issuance. The implementation of this update did not materially impact the Company’s consolidated financial position, operating results or cash flows.

### Stock Compensation

In April 2010, the FASB issued ASU, "Compensation—Stock Compensation (Topic 718)." The amendments clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The implementation of this update is not expected to materially impact the Company's consolidated financial position, operating results or cash flows.

### Receivables

In July 2010, the FASB issued ASU, "Receivables (Topic 310)." The update is intended to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The implementation of this update is not expected to materially impact the Company's disclosures.

### 3. Segment and Geographic Reporting

The Company's reportable operating segments are Colombia and Argentina based on a geographic organization. The Company is primarily engaged in the exploration and production of oil and natural gas. Peru and Brazil are not reportable segments because the level of activity is not significant at this time and are included as part of the Corporate segment. The accounting policies of the reportable operating segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from oil and natural gas operations before income taxes.

The following tables present information on the Company's reportable geographic segments:

#### Three Months Ended September 30, 2010

(Thousands of U.S. Dollars except per unit of production amounts (1))	Colombia	Argentina	Corporate	Total
Revenues	\$ 80,731	\$ 3,379	\$ -	\$ 84,110
Interest income	301	-	158	459
Depletion, depreciation, and accretion ("DD&A")	33,916	1,208	130	35,254
Depletion, depreciation, and accretion - per unit of production	28.78	18.08	-	28.31
Segment income (loss) before income taxes	8,305	(405)	(5,283)	2,617
Segment capital expenditures	\$ 22,084	\$ 12,289	\$ 13,313	\$ 47,686

#### Three Months Ended September 30, 2009

(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 71,385	\$ 3,786	\$ -	\$ 75,171
Interest income	31	34	118	183
Depletion, depreciation, and accretion	33,630	1,538	78	35,246
Depletion, depreciation, and accretion - per unit of production	30.37	18.38	-	29.59
Segment income (loss) before income taxes	7,955	390	(3,202)	5,143
Segment capital expenditures (2)	\$ 17,024	\$ 1,890	\$ 210	\$ 19,124



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Nine Months Ended September 30, 2010

(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 250,767	\$ 9,992	\$ -	\$ 260,759
Interest income	520	19	495	1,034
Depletion, depreciation, and accretion	99,243	3,999	296	103,538
Impairment of carrying value of oil and natural gas properties	-	3,700	-	3,700
Depletion, depreciation, and accretion - per unit of production	27.57	19.20	-	27.19
Impairment of carrying value of oil and natural gas properties - per unit of production	-	17.76	-	0.97
Segment income (loss) before income taxes	74,154	(6,158)	(14,013)	53,983
Segment capital expenditures	\$ 68,531	\$ 16,763	\$ 16,752	\$ 102,046

Nine Months Ended September 30, 2009

(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 156,257	\$ 10,349	\$ -	\$ 166,606
Interest income	352	84	388	824
Depletion, depreciation, and accretion	90,565	4,671	230	95,466
Depletion, depreciation, and accretion - per unit of production	29.94	18.21	-	29.09
Segment income (loss) before income taxes	5,370	(577)	(9,678)	(4,885)
Segment capital expenditures (2)	\$ 58,431	\$ 3,162	\$ 1,799	\$ 63,392

As at September 30, 2010

(Thousands of U.S. Dollars)	Colombia	Argentina	Corporate	Total
Property, plant and equipment	\$ 651,390	\$ 33,341	\$ 22,835	\$ 707,566
Goodwill	102,581	-	-	102,581
Other assets	147,874	16,349	238,492	402,715
Total Assets	\$ 901,845	\$ 49,690	\$ 261,327	\$ 1,212,862

As at December 31, 2009

(Thousands of U.S. Dollars)	Colombia	Argentina	Corporate	Total
Property, plant and equipment	\$ 681,854	\$ 24,510	\$ 6,379	\$ 712,743
Goodwill	102,581	-	-	102,581
Other assets	123,380	12,574	192,530	328,484
Total Assets	\$ 907,815	\$ 37,084	\$ 198,909	\$ 1,143,808