

GRAN TIERRA ENERGY INC.
Form 10-Q
May 03, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2017

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)

Delaware 98-0479924
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

900, 520 - 3 Avenue SW
Calgary, Alberta Canada T2P 0R3
(Address of principal executive offices, including 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 website, 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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

On May 1, 2017, the following number of shares of the registrant's capital stock were outstanding: 390,818,790 shares of the registrant's Common Stock, \$0.001 par value; one share of Special A Voting Stock, \$0.001 par value, representing 3,387,302 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 4,800,992 shares of Gran Tierra Exchangeco Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock.

Gran Tierra Energy Inc.

Quarterly Report on Form 10-Q

Quarterly Period Ended March 31, 2017

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CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of our management for future operations, covenant compliance, capital spending plans and those statements preceded by, followed by or that otherwise include the words "believe", "expect", "anticipate", "intend", "estimate", "project", "target", "goal", "plan", "objective", "should", or similar expressions or variations on these expressions are forward-looking statements. We can give no assurances that the assumptions upon which the forward-looking statements are based will prove to be correct or that, even if correct, intervening circumstances will not occur to cause actual results to be different than expected. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements, including, but not limited to, those set out in Part II, Item 1A "Risk Factors" in our Quarterly Reports on Form 10-Q and in Part I, Item 1A "Risk Factors" in our 2016 Annual Report on Form 10-K. The information included herein is given as of the filing date of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission ("SEC") and, except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

GLOSSARY OF OIL AND GAS TERMS

In this document, the abbreviations set forth below have the following meanings:

bbl barrel BOE barrels of oil equivalent
Mbbbl thousand barrels BOEPD barrels of oil equivalent per day
Mcf thousand cubic feet bopd barrels of oil per day
NAR net after royalty

Sales volumes represent production NAR adjusted for inventory changes. Our oil and gas reserves are reported NAR. Our production is also reported NAR, except as otherwise specifically noted as "working interest production before royalties." Natural gas liquids ("NGLs") volumes are converted to BOE on a one-to-one basis with oil. Gas volumes are converted to BOE at the rate of 6 Mcf of gas per bbl of oil, based upon the approximate relative energy content of gas and oil. The rate is not necessarily indicative of the relationship between oil and gas prices. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

PART I - Financial Information

Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2017	2016
OIL AND NATURAL GAS SALES (NOTE 3)	\$94,659	\$ 57,403
EXPENSES		
Operating	23,937	19,067
Transportation	6,942	12,328
Depletion, depreciation and accretion (Note 3)	26,593	36,912
Asset impairment (Notes 3 and 4)	283	56,898
General and administrative (Note 3)	8,712	7,049
Transaction	—	1,237
Severance	—	1,018
Equity tax	1,224	3,051
Foreign exchange (gain) loss	(1,847)	785
Financial instruments (gain) loss (Note 10)	(5,439)	845
Interest expense (Note 5)	3,095	519
	63,500	139,709
GAIN ON ACQUISITION	—	11,712
INTEREST INCOME	408	449
INCOME (LOSS) BEFORE INCOME TAXES (NOTE 3)	31,567	(70,145)
INCOME TAX (EXPENSE) RECOVERY		
Current	(7,417)	(2,023)
Deferred	(11,379)	27,136
	(18,796)	25,113
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	\$ 12,771	\$ (45,032)
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED	\$0.03	\$ (0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC (Note 6)	399,007,089	393,812,226
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED (Note 6)	399,046,129	393,812,226

(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)

	March 31, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 11)	\$26,716	\$25,175
Restricted cash and cash equivalents (Notes 7 and 11)	7,663	8,322
Accounts receivable	46,912	45,698
Derivatives (Note 10)	1,425	578
Inventory (Note 4)	7,285	7,766
Taxes receivable	23,284	26,393
Prepaid taxes (Note 2)	—	12,271
Other prepaids	4,404	5,482
Total Current Assets	117,689	131,685
Oil and Gas Properties (using the full cost method of accounting)		
Proved	460,937	412,319
Unproved	620,045	647,774
Total Oil and Gas Properties	1,080,982	1,060,093
Other capital assets	6,314	6,516
Total Property, Plant and Equipment (Notes 3 and 4)	1,087,296	1,066,609
Other Long-Term Assets		
Deferred tax assets (Note 2)	100,260	1,611
Prepaid taxes (Note 2)	—	41,784
Other long-term assets (Note 11)	24,467	23,626
Goodwill (Note 3)	102,581	102,581
Total Other Long-Term Assets	227,308	169,602
Total Assets (Note 3)	\$1,432,293	\$1,367,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$112,414	\$107,051
Derivatives (Note 10)	—	3,824
Taxes payable (Note 2)	38,210	38,939
Asset retirement obligation (Note 7)	1,214	5,215
Total Current Liabilities	151,838	155,029
Long-Term Liabilities		
Long-term debt (Notes 5 and 10)	193,159	197,083
Deferred tax liabilities (Note 2)	36,061	107,230
Asset retirement obligation (Note 7)	42,960	38,142
Other long-term liabilities	11,332	11,425
Total Long-Term Liabilities	283,512	353,880
Contingencies (Note 9)		

Shareholders' Equity

Common Stock (Note 6) (390,815,190 and 390,807,194 shares of Common Stock and 8,191,894 and 8,199,894 exchangeable shares, par value \$0.001 per share, issued and outstanding as at March 31, 2017, and December 31, 2016, respectively)	10,303	10,303
Additional paid in capital	1,343,365	1,342,656
Deficit	(356,725)	(493,972)
Total Shareholders' Equity	996,943	858,987
Total Liabilities and Shareholders' Equity	\$1,432,293	\$1,367,896

(See notes to the condensed consolidated financial statements)

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

	Three Months Ended March 31,	
	2017	2016
Operating Activities		
Net income (loss)	\$12,771	\$(45,032)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and accretion (Note 3)	26,593	36,912
Asset impairment (Notes 3 and 4)	283	56,898
Deferred tax expense (recovery)	11,379	(27,136)
Stock-based compensation (Note 6)	1,203	1,460
Amortization of debt issuance costs (Note 5)	605	140
Cash settlement of restricted share units	(318)	(673)
Unrealized foreign exchange gain	(2,819)	(183)
Financial instruments (gain) loss (Note 10)	(5,439)	845
Cash settlement of financial instruments (Note 10)	768	44
Cash settlement of asset retirement obligation (Note 7)	(13)	(104)
Gain on acquisition	—	(11,712)
Net change in assets and liabilities from operating activities (Note 11)	4,930	(647)
Net cash provided by operating activities	49,943	10,812
Investing Activities		
Additions to property, plant and equipment, excluding corporate acquisition (Note 3)	(46,160)	(26,180)
Additions to property, plant and equipment - acquisition of PetroGranada Colombia Limited	—	(19,388)
Deposit received for Brazil Divestiture (Note 1)	3,500	—
Cash paid for business combinations, net of cash acquired	—	(40,201)
Changes in non-cash investing working capital	(1,797)	50
Net cash used in investing activities	(44,457)	(85,719)
Financing Activities		
Proceeds from bank debt, net of issuance costs (Note 5)	18,471	—
Repayment of bank debt (Note 5)	(23,000)	—
Proceeds from issuance of shares of Common Stock, net of issuance costs	—	1,198
Net cash (used in) provided by financing activities	(4,529)	1,198
Foreign exchange gain on cash, cash equivalents and restricted cash and cash equivalents	474	1,154
Net increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents	1,431	(72,555)
Cash, cash equivalents and restricted cash and cash equivalents, beginning of period (Note 11)	43,267	148,751
Cash, cash equivalents and restricted cash and cash equivalents, end of period (Note 11)	\$44,698	\$76,196

Supplemental cash flow disclosures (Note 11)

(See notes to the condensed consolidated financial statements)

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

	Three Months Ended March 31, 2017	Year Ended December 31, 2016
Share Capital		
Balance, beginning of period	\$ 10,303	\$ 10,186
Issuance of Common Stock (Note 6)	—	117
Balance, end of period	10,303	10,303
Additional Paid in Capital		
Balance, beginning of period	1,342,656	1,019,863
Issuance of Common Stock, net of share issuance costs (Note 6)	—	314,425
Exercise of stock options (Note 6)	—	5,347
Stock-based compensation (Note 6)	709	3,021
Balance, end of period	1,343,365	1,342,656
Deficit		
Balance, beginning of period	(493,972)	(28,407)
Net income (loss)	12,771	(465,565)
Cumulative adjustment for accounting change related to tax reorganizations (Note 2)	124,476	—
Balance, end of period	(356,725)	(493,972)
Total Shareholders' Equity	\$996,943	\$858,987

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.

Notes to the Condensed Consolidated Financial Statements (Unaudited)

(Expressed in U.S. Dollars, unless otherwise indicated)

1. Description of Business

Gran Tierra Energy Inc., a Delaware corporation (the "Company" or "Gran Tierra"), is a publicly traded company focused on oil and natural gas exploration and production in Colombia. The Company also has business activities in Peru and Brazil.

On February, 6, 2017, the Company announced that a purchase and sale agreement (the "Agreement") had been executed by a third party ("Purchaser") to purchase Gran Tierra's Brazil business unit through the acquisition of all of the equity interests in one of Gran Tierra's indirect subsidiaries, and the assignment of certain debt owed by the corporate entities comprising Gran Tierra's Brazil business unit to the Gran Tierra group of companies (the "Brazil Divestiture"). Upon completion of the Brazil Divestiture, the Purchaser will acquire all of Gran Tierra's assets and certain liabilities in Brazil, including its 100% working interest in the Tiê Field and all of Gran Tierra's interest in exploration rights and obligations held pursuant to concession agreements granted by the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis of Brazil ("ANP").

The completion of the Brazil Divestiture is subject to the Purchaser obtaining financing, as well as customary closing conditions, including the receipt of required regulatory approval from the ANP. The consideration to be received by Gran Tierra on the completion of the Brazil Divestiture is \$35 million, subject to adjustments, plus the assumption by the Purchaser of certain existing and potential liabilities of Gran Tierra's Brazil business unit. Pursuant to the Agreement, the Purchaser paid a deposit of \$3.5 million on February 7, 2017, which is not refundable in the event the Purchaser is not successful in obtaining financing to complete the Brazil Divestiture. The economic effective date of the transaction would be on or before August 1, 2017, and Gran Tierra will continue to operate its Brazil business unit until the completion of the Brazil Divestiture.

2. Significant Accounting Policies

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of results for the interim periods.

The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for interim unaudited condensed consolidated financial statements. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2016, included in the Company's 2016 Annual Report on Form 10-K, filed with the SEC on March 1, 2017.

The Company's significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company's 2016 Annual Report on Form 10-K and are the same policies followed in these interim unaudited condensed consolidated financial statements, except as noted below. The Company has evaluated all subsequent events through to the date these interim unaudited condensed consolidated financial statements were issued.

Recently Adopted Accounting Pronouncements

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory". The ASU provides guidance for the subsequent measurement of inventory and requires that inventory that is measured using average cost be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The implementation of this update did not materially impact the Company's consolidated financial position, results of operations or cash flows or disclosure.

Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting". This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for

forfeitures, income taxes, and statutory tax withholding requirements. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company elected to continue to estimate the total number of awards for which the requisite service period will not be rendered. The implementation of this update did not impact the Company's consolidated financial position, results of operations or cash flows or disclosure.

Income Taxes - Intra-Entity Transfers of Assets Other than Inventory

At December 31, 2016, GAAP prohibited the recognition of current and deferred income taxes for intra-entity transfers until an asset leaves the consolidated group, therefore, the current income tax effect of tax reorganizations completed in 2016 was deferred and recognized as prepaid income taxes. At December 31, 2016, the Company's balance sheet included \$54.1 million of prepaid income taxes, \$12.3 million in current prepaid taxes and \$41.8 million in long-term prepaid taxes, and \$37.5 million of current income taxes payable relating to tax reorganizations completed in 2016.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other than Inventory." This ASU requires companies to recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the income