

GRAN TIERRA ENERGY, INC.
Form 10-Q
August 06, 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 June 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 Accelerated Filer

Non-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 August 3, 2010, the following numbers of shares of the registrant's capital stock were outstanding: 234,880,008 shares of the registrant's Common Stock, \$0.001 par value; one share of Special A Voting Stock, \$0.001 par value, representing 8,446,032 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 10,907,047 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
REVENUE AND OTHER INCOME				
Oil and natural gas sales	\$ 83,717	\$ 58,284	\$ 176,649	\$ 91,435
Interest	397	227	575	641
	84,114	58,511	177,224	92,076
EXPENSES				
Operating	9,529	8,878	19,714	15,964
Depletion, depreciation, accretion, and impairment	31,641	32,691	71,984	60,220
General and administrative	9,594	7,025	16,784	12,150
Derivative financial instruments loss (gain) (Note 10)	-	284	(44)	284
Foreign exchange loss	3,126	33,708	17,420	13,486
	53,890	82,586	125,858	102,104
INCOME (LOSS) BEFORE INCOME TAXES	30,224	(24,075)	51,366	(10,028)
Income tax expense (Note 7)	(12,853)	(4,125)	(24,035)	(4,040)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	17,371	(28,200)	27,331	(14,068)
RETAINED EARNINGS, BEGINNING OF PERIOD	30,885	21,116	20,925	6,984
RETAINED EARNINGS (ACCUMULATED DEFICIT), END OF PERIOD	\$ 48,256	\$ (7,084)	\$ 48,256	\$ (7,084)
NET INCOME (LOSS) PER SHARE — BASIC	\$ 0.07	\$ (0.12)	\$ 0.11	\$ (0.06)
NET INCOME (LOSS) PER SHARE — DILUTED	\$ 0.07	\$ (0.12)	\$ 0.10	\$ (0.06)
WEIGHTED AVERAGE SHARES				
OUTSTANDING - BASIC (Note 5)	254,344,474	241,426,744	251,234,950	239,962,497
WEIGHTED AVERAGE SHARES				
OUTSTANDING - DILUTED (Note 5)	263,853,024	241,426,744	260,922,669	239,962,497

(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)

	June 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 293,226	\$ 270,786
Restricted cash	290	1,630
Accounts receivable	74,477	35,639
Inventory (Note 2)	6,875	4,879
Taxes receivable	1,148	1,751
Prepays	2,197	1,820
Deferred tax assets (Note 7)	3,824	4,252
Total Current Assets	382,037	320,757
Oil and Gas Properties (using the full cost method of accounting)		
Proved	440,460	474,679
Unproved	248,556	234,889
Total Oil and Gas Properties	689,016	709,568
Other capital assets	4,871	3,175
Total Property, Plant and Equipment (Note 4)	693,887	712,743
Other Long Term Assets		
Restricted cash	841	162
Deferred tax assets (Note 7)	7,285	7,218
Other long term assets	327	347
Goodwill	102,581	102,581
Total Other Long Term Assets	111,034	110,308
Total Assets	\$ 1,186,958	\$ 1,143,808
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable (Note 8)	\$ 39,613	\$ 36,786
Accrued liabilities (Note 8)	31,037	40,229
Derivative financial instruments (Note 10)	-	44
Taxes payable	32,371	28,087
Asset retirement obligation (Note 6)	300	450
Total Current Liabilities	103,321	105,596

Long Term Liabilities		
Deferred tax liabilities (Note 7)	211,787	216,625
Deferred remittance tax (Note 7)	1,346	903
Asset retirement obligation (Note 6)	4,686	4,258
Total Long Term Liabilities	217,819	221,786
Commitments and Contingencies (Note 9)		
Subsequent Events (Note 12)		
Shareholders' Equity		
Common shares (Note 5)	3,072	1,431
(234,612,808 and 219,459,361 common shares and 19,107,554 and 24,639,513 exchangeable shares, par value \$0.001 per share, issued and outstanding as at June 30, 2010 and December 31, 2009 respectively)		
Additional paid in capital	811,429	766,963
Warrants	3,061	27,107
Retained earnings	48,256	20,925
Total Shareholders' Equity	865,818	816,426
Total Liabilities and Shareholders' Equity	\$ 1,186,958	\$ 1,143,808

(See notes to the condensed consolidated financial statements)

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

	Six Months Ended June 30,	
	2010	2009
Operating Activities		
Net income (loss)	\$ 27,331	\$ (14,068)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation, accretion, and impairment	71,984	60,220
Deferred taxes (Note 7)	(18,031)	(4,953)
Stock based compensation (Note 5)	3,360	2,285
Unrealized (gain) loss on financial instruments (Note 10)	(44)	371
Unrealized foreign exchange loss	13,997	12,709
Settlement of asset retirement obligations (Note 6)	-	(52)
Net changes in non-cash working capital		
Accounts receivable	(35,435)	(43,142)
Inventory	(487)	(225)
Prepays	(377)	(516)
Accounts payable and accrued liabilities	(14,216)	1,505
Taxes receivable and payable	4,887	(9,049)
Net cash provided by operating activities	52,969	5,085
Investing Activities		
Restricted cash	661	(1,664)
Additions to property, plant and equipment	(50,914)	(39,268)
Proceeds from disposition of oil and gas property	1,200	4,200
Long term assets and liabilities	20	340
Net cash used in investing activities	(49,033)	(36,392)
Financing Activities		
Proceeds from issuance of common shares	18,504	1,087
Net cash provided by financing activities	18,504	1,087
Net increase (decrease) in cash and cash equivalents	22,440	(30,220)
Cash and cash equivalents, beginning of period	270,786	176,754
Cash and cash equivalents, end of period	\$ 293,226	\$ 146,534
Cash	\$ 194,465	\$ 37,532
Term deposits	98,761	109,002
Cash and cash equivalents, end of period	\$ 293,226	\$ 146,534
Supplemental cash flow disclosures:		
Cash paid for taxes	\$ 32,512	\$ 16,680

Non-cash investing activities:

Non-cash working capital related to property, plant and equipment	\$	21,220	\$	15,656
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(See notes to the condensed consolidated financial statements)

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

	Six Months Ended		Year Ended	
	June 30, 2010		December 31, 2009	
Share Capital				
Balance, beginning of period	\$	1,431	\$	226
Issue of common shares		1,641		1,205
Balance, end of period		3,072		1,431
Additional Paid in Capital				
Balance, beginning of period		766,963		754,832
Issue of common shares		15,830		2,650
Exercise of warrants (Note 5)		24,046		2,777
Exercise of stock options (Note 5)		1,033		1,080
Stock based compensation expense (Note 5)		3,557		5,624
Balance, end of period		811,429		766,963
Warrants				
Balance, beginning of period		27,107		29,884
Exercise of warrants (Note 5)		(24,046)		(2,777)
Balance, end of period		3,061		27,107
Retained Earnings				
Balance, beginning of period		20,925		6,984
Net income		27,331		13,941
Balance, end of period		48,256		20,925
Total Shareholders' Equity	\$	865,818	\$	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 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 interim unaudited 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 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 June 30, 2010, the results of its operations for the three and six month periods ended June 30, 2010 and 2009, and its cash flows for the six month periods ended June 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 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 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 June 30, 2010 and December 31, 2009 are \$5.6 million and \$3.8 million, respectively. Supplies at June 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 June 30, 2010				
(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 80,603	\$ 3,114	\$ -	\$ 83,717
Interest income	142	3	252	397
Depletion, depreciation, and accretion	30,321	1,224	96	31,641
Depletion, depreciation, and accretion - per unit of production	26.33	18.71	-	26.00
Segment income (loss) before income taxes	37,089	(1,109)	(5,756)	30,224
Segment capital expenditures	\$ 28,894	\$ 3,814	\$ 2,148	\$ 34,856

Three Months Ended June 30, 2009				
(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 54,596	\$ 3,688	\$ -	\$ 58,284
Interest income	98	9	120	227
Depletion, depreciation, and accretion	31,012	1,603	76	32,691
Depletion, depreciation, and accretion - per unit of production	29.30	18.00	-	28.49
Segment loss before income taxes	(20,166)	(523)	(3,386)	(24,075)
Segment capital expenditures (1)	\$ 17,193	\$ 824	\$ 802	\$ 18,819

Six Months Ended June 30, 2010				
(Thousands of U.S. Dollars except per unit of production amounts)	Colombia	Argentina	Corporate	Total
Revenues	\$ 170,036	\$ 6,613	\$ -	\$ 176,649
Interest income	219	19	337	575
Depletion, depreciation, and accretion	65,327	2,791	166	68,284
Impairment of carrying value of oil and natural gas properties	-	3,700	-	3,700
Depletion, depreciation, and accretion - per unit of production	26.98	19.72	-	26.65
Impairment of carrying value of oil and natural gas properties - per unit of production	-	26.14	-	1.44
Segment income (loss) before income taxes	65,849	(5,753)	(8,730)	51,366
Segment capital expenditures	\$ 46,447	\$ 4,474	\$ 3,439	\$ 54,360

Six Months Ended June 30, 2009

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(Thousands of U.S. Dollars except per unit of production amounts)

	Colombia	Argentina	Corporate	Total
Revenues	\$ 84,872	\$ 6,563	\$ -	\$ 91,435
Interest income	322	49	270	641
Depletion, depreciation, and accretion	56,935	3,133	152	60,220
Depletion, depreciation, and accretion - per unit of production	29.68	18.13	-	28.80
Segment loss before income taxes	(2,585)	(969)	(6,474)	(10,028)
Segment capital expenditures (1)	\$ 35,125	\$ 1,271	\$ 1,589	\$ 37,985

(Thousands of U.S. Dollars)	As at June 30, 2010			
	Colombia	Argentina	Corporate	Total
Property, plant and equipment	\$ 661,829	\$ 22,406	\$ 9,652	\$ 693,887
Goodwill	102,581	-	-	102,581
Other assets	147,498	13,217	229,775	390,490
Total Assets	\$ 911,908	\$ 35,623	\$ 239,427	\$ 1,186,958

(Thousands of U.S. Dollars)	As at December 31, 2009			
	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

(1) Net of net proceeds from the disposition of the Guachiria Blocks in Colombia (see Note 4).

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry. The concentration of credit risk in a single industry affects the Company's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. In 2010, the Company has one significant customer for its Colombian crude oil, Ecopetrol S.A. ("Ecopetrol"), a Colombian government agency. Sales to Ecopetrol accounted for 96% and 95% of the Company's revenues in the second quarter of 2010 and 2009, respectively. Sales to Ecopetrol accounted for 96% and 91% of the company's revenues for the six month period ended June 30, 2010 and 2009, respectively. In Argentina, the Company has one significant customer, Refineria del Norte S.A ("Refiner"). Sales to Refiner accounted for 4% and 5% of the Company's revenues in the second quarter of 2010 and 2009, respectively. Sales to Refiner accounted for 4% and 6% of the company's revenues for the six month period ended June 30, 2010 and 2009, respectively.

4. Property, Plant and Equipment

(Thousands of U.S. Dollars)	As at June 30, 2010			As at December 31, 2009		
	Cost	Accumulated DD&A	Net book value	Cost	Accumulated DD&A	Net book value
Oil and natural gas properties						
Proved	\$ 686,535	\$ (246,075)	\$ 440,460	\$ 648,061	\$ (173,382)	\$ 474,679
Unproved	248,556	-	248,556	234,889	-	234,889
	935,091	(246,075)	689,016	882,950	(173,382)	709,568
Furniture and fixtures and leasehold improvements						
	4,795	(2,439)	2,356	3,843	(2,185)	1,658
Computer equipment	4,420	(2,145)	2,275	3,148	(1,907)	1,241
Automobiles	666	(426)	240	513	(237)	276
Total Property, Plant and Equipment	\$ 944,972	\$ (251,085)	\$ 693,887	\$ 890,454	\$ (177,711)	\$ 712,743

Depreciation, depletion, accretion and impairment for the six months ended June 30, 2010 included a \$3.7 million first quarter ceiling test impairment loss in the Company's Argentina cost center.

During the six months ended June 30, 2010, the Company capitalized \$2.5 million (year ended December 31, 2009 - \$1.6 million) of general and administrative expenses related to the Colombian full cost center, including \$0.1 million (year ended December 31, 2009 - \$0.2 million) of stock based compensation expense, and \$0.6 million (year ended December 31, 2009 - \$0.6 million) of general and administrative expenses in the Argentina full cost center, including \$0.1 million (year ended December 31, 2009 - \$0.1 million) of stock based compensation.

The unproved oil and natural gas properties at June 30, 2010 consist of exploration lands held in Colombia, Argentina and Peru. As at June 30, 2010, the Company had \$239.2 million (December 31, 2009 - \$229.1 million) in unproved assets in Colombia, \$2.0 million (December 31, 2009 - \$0.4 million) of unproved assets in Argentina and \$7.4 million (December 31, 2009 - \$5.4 million) of unproved assets in Peru. These properties are being held for their exploration value and are not being depleted pending determination of the existence of proved reserves. Gran Tierra will continue to assess the unproved properties over the next several years as proved reserves are established and as exploration dictates whether or not future areas will be developed.

In April 2009, Gran Tierra closed the sale of the Company's interests in the Guachiria Norte, Guachiria, and Guachiria Sur blocks in Colombia. Principal terms included consideration of \$7.0 million comprising an initial cash payment of \$4.0 million at closing, followed by 15 monthly installments of \$200,000 each which began on June 1, 2009 and extending through August 3, 2010. The Company recorded net proceeds of \$6.3 million.

5. Share Capital

The Company's authorized share capital consists of 595,000,002 shares of capital stock, of which 570 million are designated as common stock, par value \$0.001 per share, 25 million are designated as preferred stock, par value \$0.001, per share and two shares are designated as special voting stock, par value \$0.001 per share. As at June 30, 2010, outstanding share capital consists of 234,612,808 common voting shares of the Company, 11,058,347 exchangeable shares of Gran Tierra Exchange Co., automatically exchangeable on November 14, 2013, and 8,049,207 exchangeable shares of Goldstrike Exchange Co., automatically exchangeable on November 10, 2012. The exchangeable shares of Gran Tierra Exchange Co, were issued upon acquisition of Solana Resources Limited ("Solana"). The exchangeable shares of Gran Tierra Goldstrike Inc. were issued upon the business combination between Gran Tierra Energy Inc., an Alberta corporation, and Goldstrike, Inc., which is now the Company. Each exchangeable share is exchangeable into one common voting share of the Company. The holders of common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and are entitled to share in all dividends that the Company's board of directors, in its discretion, declares from legally available funds. The holders of common stock have no pre-emptive rights, no conversion rights, and there are no redemption provisions applicable to the common stock. Holders of exchangeable shares have substantially the same rights as holders of common voting shares.

Warrants

At June 30, 2010, the Company has 3,766,862 warrants outstanding to purchase 1,883,431 common shares for \$1.25 per share, expiring between September 1, 2010 and February 2, 2011, and 9,553,068 warrants outstanding to purchase 4,776,534 common shares for \$1.05 per share, expiring between June 20, 2012 and June 30, 2012. For the six months ended June 30, 2010, 8,352,494 common shares were issued upon the exercise of 9,559,050 warrants (six months ended June 30, 2009, 2,599,932 common shares were issued upon the exercise of 7,721,140 warrants). Included in warrants exercised in the six months ended June 30, 2010 were 7,145,938 warrants to purchase 7,145,938 common shares for \$14.4 million, assumed on the acquisition of Solana in November 2008.

Stock Options

As at June 30, 2010, the Company has a 2007 Equity Incentive Plan, formed through the approval by shareholders of the amendment and restatement of the 2005 Equity Incentive Plan, under which the Company's board of directors is authorized to issue options or other rights to acquire shares of the Company's common stock. On November 14, 2008, the shareholders of Gran Tierra approved an amendment to the Company's 2007 Equity Incentive Plan, which increased the number of shares of common stock available for issuance thereunder from 9,000,000 shares to 18,000,000 shares. On June 16, 2010, another amendment to the Company's 2007 Equity Incentive plan was approved by shareholders, which increased the number of shares of common stock available for issuance thereunder from 18,000,000 shares to 23,306,100 shares.

The Company grants options to purchase common shares to certain directors, officers, employees and consultants. Each option permits the holder to purchase one common share at the stated exercise price. The options vest over three years and have a term of ten years, or three months after the grantee's end of service to the Company, whichever occurs first. At the time of grant, the exercise price equals the market price. For the six months ended June 30, 2010, 1,268,993 common shares were issued upon the exercise of 1,268,993 stock options (six months ended June 30, 2009 – 374,652). The following options are outstanding as of June 30, 2010:

	Number of Outstanding Options	Weighted Average Exercise Price \$/Option
Balance, December 31, 2009	11,088,616	\$ 2.43
Granted in 2010	2,755,000	5.90
Exercised in 2010	(1,268,993)	(2.10)
Forfeited in 2010	(141,670)	(2.71)
Balance, June 30, 2010	12,432,953	\$ 3.22

The weighted average grant date fair value for options granted in 2010 was \$3.33. The intrinsic value of options exercised for the six months ended June 30, 2010 was \$4.8 million (six months ended June 30, 2009 - \$831,714).

The table below summarizes stock options outstanding at June 30, 2010:

Range of Exercise Prices (\$/option)	Number of Outstanding Options	Weighted Average Exercise Price \$/Option	Weighted Average Expiry Years
0.50 to 1.30	1,905,671	\$ 1.05	5.9
1.31 to 2.00	320,974	1.75	6.6
2.01 to 3.50	6,381,308	2.45	8.2
3.51 to 5.50	585,000	4.42	9.3
5.51 to 7.75	3,240,000	5.96	9.6
Total	12,432,953	\$ 3.22	8.2

The aggregate intrinsic value of options outstanding at June 30, 2010 is \$28.3 million based on the Company's closing stock price of \$4.96 for that date. At June 30, 2010, there was \$9.3 million of unrecognized compensation cost related to unvested stock options which is expected to be recognized over the next three years.

For the six months ended June 30, 2010, the stock based compensation expense was \$3.6 million (six months ended June 30, 2009 - \$2.7 million) of which \$2.9 million (six months ended June 30, 2009 - \$2.1 million) was recorded in general and administrative expense and \$0.5 million was recorded in operating expense in the consolidated statement of operations (six months ended June 30, 2009 - \$0.2 million). For the six months ended June 30, 2010, \$0.2 million of stock based compensation was capitalized as part of exploration and development costs (six months ended June 30, 2009 - \$0.4 million).

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model based on assumptions noted in the following table. The Company uses historical data to estimate option exercises, expected term and employee departure behavior used in the Black-Scholes option pricing model. Expected volatilities used in the fair value estimate are based on historical volatility of the Company's stock. The risk-free rate for periods within the contractual term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Dividend yield (per share)	\$ nil	\$ nil	\$ nil	\$ nil
Volatility	89%	98%	90%	97%
Risk-free interest rate	0.5%	0.6%	0.4%	0.6%
Expected term	3 years	3 years	3 years	3 years

Estimated forfeiture percentage (per year)	10%	10%	10%	10%
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Weighted Average Shares Outstanding

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average number of common and exchangeable shares outstanding	254,344,474	241,426,744	251,234,950	239,962,497
Shares issuable pursuant to warrants	5,297,738	-	5,302,755	-
Shares issuable pursuant to stock options	4,210,812	-	4,384,964	-
Weighted average number of diluted common and exchangeable shares outstanding	263,853,024	241,426,744	260,922,669	239,962,497

Net Income Per Share

For the three months ended June 30, 2010, options to purchase 3,435,000 common shares (for the six months ended June 30, 2010, options to purchase 3,250,000 common shares) were excluded from the diluted income per share calculation as the instruments were anti-dilutive. For the three and six month periods ended June 30, 2009, options to purchase 11,445,550 common shares were excluded from the diluted income per share calculation as the instruments were anti-dilutive. For the three and six month periods ended June 30, 2009, 26,121,500 warrants to purchase 16,633,719 common shares were excluded from the diluted loss per share calculation as the instruments were anti-dilutive.

6. Asset Retirement Obligation

As at June 30, 2010 the Company's asset retirement obligation was comprised of a Colombian obligation in the amount of \$3.9 million (December 31, 2009 - \$3.5 million) and an Argentine obligation in the amount of \$1.1 million (December 31, 2009 - \$1.2 million). As at June 30, 2010, the undiscounted asset retirement obligation was \$8.9 million (December 31, 2009 - \$7.7 million). Changes in the carrying amounts of the asset retirement obligations associated with the Company's oil and natural gas properties were as follows:

(Thousands of U.S. Dollars)	Six Months Ended June 30, 2010	Year Ended December 31, 2009
Balance, beginning of period	\$ 4,708	\$ 4,251
Settlements	-	(52)
Disposal	-	(734)
Liability incurred	139	921
Foreign exchange	19	24
Accretion	120	298
Balance, end of period	\$ 4,986	\$ 4,708
Asset retirement obligation - current	\$ 300	\$ 450
Asset retirement obligation - long term	4,686	4,258
Balance, end of period	\$ 4,986	\$ 4,708

7. Income Taxes

The income tax expense (recovery) reported differ from the amount computed by applying the US statutory rate to income before income taxes for the following reasons:

(Thousands of U.S. Dollars)	Six Months Ended June 30, 2010	2009 (1)
Income (loss) before income taxes	\$ 51,366	\$ (10,028)
	35%	35%
Income tax expense (recovery) expected	17,978	(3,510)
Permanent differences	3,960	861
Foreign currency translation adjustments	5,638	2,580
Impact of foreign taxes	(1,580)	(311)
Enhanced tax depreciation incentive	(2,921)	(236)
Stock based compensation	1,014	761
Increase in valuation allowance	3,354	7,658
Partnership and branch loss pick-up in the United States and Canada	(3,408)	(3,763)

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Total income tax expense	\$	24,035	\$	4,040
Current income tax		42,066		8,993
Deferred tax recovery		(18,031)		(4,953)
Total income tax expense	\$	24,035	\$	4,040

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(1) For the six months ended June 30, 2010, the Company has used the United States statutory tax rate of 35% in the reconciliation of income taxes. Previously, the Company used the Canadian statutory rate in the reconciliation. This change was determined on the basis that Gran Tierra is a United States resident corporation and a reconciliation beginning with the United States statutory tax rate is more informative. The 2009 comparative income tax reconciliation has been recomputed using the United States statutory rate. This change in presentation has no impact on the income tax amounts reported in the consolidated statements of operations for the six months ended June 30, 2009.

(Thousands of U.S. Dollars)	As at	
	June 30, 2010	December 31, 2009
Deferred Tax Assets		
Tax benefit of loss carryforwards	\$ 24,168	\$ 22,318
Tax basis in excess of book value	1,936	1,691
Foreign tax credits and other accruals	16,081	15,508
Capital losses	1,740	1,481
Deferred tax assets before valuation allowance	43,925	40,998
Valuation allowance	(32,816)	(29,528)
	\$ 11,109	\$ 11,470
Deferred tax assets - current		
	\$ 3,824	\$ 4,252
Deferred tax assets - long-term		
	7,285	7,218
	11,109	11,470
Deferred Tax Liabilities		
Long-term - book value in excess of tax basis	(211,787)	(216,625)
Net Deferred Tax Liabilities	\$ (200,678)	\$ (205,155)

The Company was required to calculate a deferred remittance tax in Colombia based on 7% of profits which are not reinvested in the business on the presumption that such profits would be transferred to the foreign owners up to December 31, 2006. As of January 1, 2007, the Colombian government rescinded this law; therefore, no further remittance tax liabilities will be accrued.

As at June 30, 2010, the Company has deferred tax assets relating to net operating loss carryforwards of \$24.2 million (December 31, 2009 - \$22.3 million) and capital losses of \$1.7 million (December 31, 2009 - \$1.5 million) before valuation allowances. Of these losses, \$17.5 million (December 31, 2008 - \$18.2 million) are losses generated by the foreign subsidiaries of the Company. Of the total losses, \$0.1 million (December 31, 2009 - \$0.1 million) will begin to expire by 2011 and \$25.8 million of net operating losses (December 31, 2009 - \$23.7 million) will begin to expire thereafter.

8. Accounts Payable and Accrued Liabilities

The balances in accounts payable and accrued liabilities and are comprised of the following:

(Thousands of U.S. Dollars)	As at June 30, 2010			
	Colombia	Argentina	Corporate	Total
Property, plant and equipment	\$ 25,192	\$ 962	\$ 477	\$ 26,631
Payroll	2,303	59	1,222	3,584
Audit, legal, and consultants	-	-	1,158	1,158

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General and administrative	522	413	458	1,393
Operating	36,793	1,091	-	37,884
Total	\$ 64,810	\$ 2,525	\$ 3,315	\$ 70,650

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(Thousands of U.S. Dollars)	As at December 31, 2009			
	Colombia	Argentina	Corporate	Total
Property, plant and equipment	\$ 17,723	\$ 844	\$ 213	\$ 18,780
Payroll	1,792	339	1,052	3,183
Audit, legal, and consultants	-	137	1,472	1,609
General and administrative	2,542	284	213	3,039
Operating	48,756	1,648	-	50,404
Total	\$ 70,813	\$ 3,252	\$ 2,950	\$ 77,015

9. Commitments and Contingencies

Leases

Gran Tierra holds three categories of operating leases: office, vehicle and housing. The Company pays monthly amounts of \$184,000 for office leases, \$13,000 for vehicle leases and \$11,000 for certain employee accommodation leases in Colombia, Argentina, Peru, and Brazil. Future lease payments at June 30, 2010 are as follows:

(Thousands of U.S. Dollars)	Total	As at June 30, 2010			
		Payments Due in Period			
		Less than 1 Year	1 to 3 years	3 to 5 years	More than 5 years
Contractual Obligations					
Operating leases	\$ 5,958	\$ 2,278	\$ 2,624	\$ 1,056	\$ -
Software and Telecommunication	1,260	837	423	-	-
Drilling, Completion, Facility Construction and Oil Transportation Services	44,423	42,029	2,394	-	-
Total	\$ 51,641	\$ 45,144	\$ 5,441	\$ 1,056	\$ -

Guarantees

Corporate indemnities have been provided by the Company to directors and officers for various items including, but not limited to, all costs to settle suits or actions due to their association with the Company and its subsidiaries and/or affiliates, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The maximum amount of any potential future payment cannot be reasonably estimated.

The Company may provide indemnifications in the normal course of business that are often standard contractual terms to counterparties in certain transactions such as purchase and sale agreements. The terms of these indemnifications will vary based upon the contract, the nature of which prevents the Company from making a reasonable estimate of the maximum potential amounts that may be required to be paid. Management believes the resolution of these matters would not have a material adverse impact on the Company's liquidity, consolidated financial position or results of operations.

Contingencies

Ecopetrol and Gran Tierra Energy Colombia Ltd. "Gran Tierra Colombia", the contracting parties of the Guayuyaco Association Contract, are engaged in a dispute regarding the interpretation of the procedure for allocation of oil produced and sold during the long term test of the Guayuyaco-1 and Guayuyaco-2 wells. There is a material difference in the interpretation of the procedure established in Clause 3.5 of Attachment-B of the Guayuyaco

Association Contract. Ecopetrol interprets the contract to provide that the extended test production up to a value equal to 30% of the direct exploration costs of the wells is for Ecopetrol's account only and serves as reimbursement of its 30% back-in to the Guayuyaco discovery. Gran Tierra Colombia's contention is that this amount is merely the recovery of 30% of the direct exploration costs of the wells and not exclusively for benefit of Ecopetrol. There has been no agreement between the parties, and Ecopetrol has filed a lawsuit in the Contravention Administrative Court in the District of Cauca regarding this matter. Gran Tierra Colombia filed a response on April 29, 2008 in which it refuted all of Ecopetrol's claims and requested a change of venue to the courts in Bogotá. At this time no amount has been accrued in the financial statements as the Company does not consider it probable that a loss will be incurred. Ecopetrol is claiming damages of approximately \$5.4 million.

Gran Tierra has several lawsuits and claims pending for which the Company currently cannot determine the ultimate result. Gran Tierra records costs as they are incurred or become determinable. Gran Tierra believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position or results of operations.

10. Financial Instruments, Fair Value Measurements and Credit Risk

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, and derivative financial instruments. The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not necessarily be indicative of the amounts that could be realized or settled in a market transaction. As at June 30, 2010, the fair values of financial instruments approximate their book amounts due to the short term maturity of these instruments. Most of the Company's accounts receivable relate to oil and natural gas sales and are exposed to typical industry credit risks. The Company manages this credit risk by entering into sales contracts with only credit worthy entities and reviewing its exposure to individual entities on a regular basis. The book value of the accounts receivable reflects management's assessment of the associated credit risks.

Additionally, foreign exchange gains/losses result from the fluctuation of the U.S. dollar to the Colombian peso due to Gran Tierra's deferred tax liability, a monetary liability, which is denominated in the local currency of the Colombian foreign operations. As a result, a foreign exchange gain/loss must be calculated on conversion to the U.S. dollar functional currency. A strengthening in the Colombian peso against the U.S. dollar results in foreign exchange losses, estimated at \$110,000 for each one peso decrease in the exchange rate of the Colombian peso to one U.S. dollar.

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry. The concentration of credit risk in a single industry affects the Company's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. For the six months ended June 30, 2010, the Company had one significant customer for its Colombian crude oil, Ecopetrol. In Argentina, the Company had one significant customer, Refiner.

The Company recognizes the fair value of its derivative instruments as assets or liabilities on the balance sheet. The Company currently does not have any financial derivatives. Previously, none of the Company's derivative instruments qualified as fair value hedges or cash flow hedges, and accordingly, changes in fair value of the derivative instruments were recognized as income or expense in the consolidated statement of operations and retained earnings with a corresponding adjustment to the fair value of derivative instruments recorded on the balance sheet.

11. Related Party Transaction

On February 1, 2009, the Company entered into a sublease for office space with a company ("sublessee"), of which two of Gran Tierra's directors are shareholders and directors and one such director is an officer of the sublessee. The term of the sublease runs from February 1, 2009 to August 31, 2011 and the sublease payment is \$7,700 per month plus approximately \$4,400 for operating and other expenses. The terms of the sublease were consistent with market conditions in the Calgary, Alberta, Canada real estate market.

12. Subsequent Events

On July 30, 2010 a subsidiary of Gran Tierra, Solana, signed a credit facility with BNP Paribas. The facility is a reserve base lending agreement for up to \$100 million, with an initial committed borrowing base of \$20 million. This credit facility is secured against the reserves of the Company's two subsidiaries with operating branches in Colombia – Gran Tierra Energy Colombia Ltd. and Solana Petroleum Exploration (Colombia) Ltd.

On August 3, 2010, Gran Tierra entered into a contract with a company, of which two of Gran Tierra's directors are shareholders and directors, for the drilling program in Peru, commencing in the fourth quarter of 2010. The terms of

the contract were consistent with market conditions.

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

Statement Regarding Forward-Looking Information

This report contains forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q, including without limitation, statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our projected financial position and results, estimated quantities and net present values of reserves, business strategy, plans and objectives of our management for future operations, covenant compliance and those statements preceded by, followed by or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates", "projects", "target", "goal", "plans", "objective", "should", or similar expressions or variations thereof 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 nor can we assure adequate funding will be available to execute our planned future capital program. 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 this Quarterly Report on Form 10-Q. 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 such statement is based.

The following discussion of our financial condition and results of operations should be read in conjunction with the Financial Statements as set out in Part I – Item 1 of this Quarterly Report on Form 10-Q, as well as the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 26, 2010.

Overview

We are an independent international energy company incorporated in the United States and engaged in oil and natural gas acquisition, exploration, development and production. We are headquartered in Calgary, Alberta, Canada and operate in South America in Colombia, Argentina and Peru, and have a business development office in Brazil.

In September 2005, we acquired our initial oil and gas interests and properties, which were in Argentina. During 2006, we increased our oil and gas interests and property base through further acquisitions in Colombia, Argentina and Peru. We funded acquisitions of our properties in Colombia and Argentina through a series of private placements of our securities that occurred between September 2005 and June 2006.

Effective November 14, 2008, we completed the acquisition of Solana Resources Limited ("Solana"), an international resource company engaged in the acquisition, exploration, development and production of oil and natural gas in Colombia and incorporated in Alberta, Canada. At the date of acquisition, Solana held various working interests in nine blocks in Colombia including a 50% working interest in the Chaza Block, which includes the Costayaco field, and a 35% working interest in the Guayuyaco Block, which includes the Juanambu field.

During the third quarter of 2009, we opened a business development office in Rio de Janeiro, Brazil.

Financial and Operational Highlights

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Production - Barrels of Oil Equivalent per Day	13,376	12,611	6	14,158	11,551	23
Prices Realized - Per Barrel of Oil Equivalent	\$ 68.78	\$ 50.79	35	\$ 68.93	\$ 43.73	58
Revenue and Other Income	\$ 84,114	\$ 58,511	44	\$ 177,224	\$ 92,076	92
Net Income (Loss)	\$ 17,371	\$ (28,200)	162	\$ 27,331	\$ (14,068)	294
Net Income (Loss) Per Share - Basic	\$ 0.07	\$ (0.12)	158	\$ 0.11	\$ (0.06)	283
Net Income (Loss) Per Share - Diluted	\$ 0.07	\$ (0.12)	158	\$ 0.10	\$ (0.06)	267
Funds Flow From Operations (1)	\$ 44,323	\$ 35,971	23	\$ 98,597	\$ 56,564	74
Capital Expenditures	\$ 34,856	\$ 18,819	85	\$ 54,360	\$ 37,985	43

(1) Funds flow from operations is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Management uses this financial measure to analyze operating performance and the income (loss) generated by Gran Tierra's principal business activities prior to the consideration of how non-cash items affect that income (loss), and believes that this financial measure is also useful supplemental information for investors to analyze operating performance and Gran Tierra's financial results. Investors should be cautioned that this measure should not be construed as an alternative to net income (loss) or other measures of financial performance as determined in accordance with GAAP. Gran Tierra's method of calculating this measure may differ from other companies and, accordingly, it may not be comparable to similar measures used by other companies. Funds flow from operations, as presented, is net income (loss) adjusted for depletion, depreciation and accretion, deferred taxes, stock based compensation, unrealized loss (gain) on financial instruments and unrealized foreign exchange losses (gains).

Funds Flow From Operations - Non-GAAP Measure	Three Months Ended June 30, Six Months Ended June 30,			
	2010	2009	2010	2009
Net income (loss)	\$ 17,371	\$ (28,200)	\$ 27,331	\$ (14,068)
Adjustments to reconcile net income (loss) to funds flow from operations				
Depletion, depreciation, accretion, and impairment	31,641	32,691	71,984	60,220
Deferred taxes	(7,977)	(971)	(18,031)	(4,953)
Stock-based compensation	1,998	1,160	3,360	2,285
Unrealized loss (gain) on financial instruments	-	284	(44)	371
Unrealized foreign exchange loss	1,290	31,007	13,997	12,709
Funds Flows From Operations	\$ 44,323	\$ 35,971	\$ 98,597	\$ 56,564

	As at		
	June 30, 2010	December 31, 2009	% Change
Cash & Cash Equivalents	\$ 293,226	\$ 270,786	8
Working Capital (including cash & cash equivalents)	\$ 278,716	\$ 215,161	30
Property, Plant & Equipment	\$ 693,887	\$ 712,743	(3)

Financial Highlights for the Three Months Ended June 30, 2010

- In the second quarter of 2010, oil and gas production (net after royalty and inventory adjustments) averaged 13,376 barrels of oil equivalent per day ("BOEPD"), an increase of 6% over the same period in 2009, due mainly to production of crude oil from three new development wells in Colombia.
- Revenue and other income increased by 44% over the same period in 2009 due to increased production and higher oil prices.

- Net income was \$17.4 million or \$0.07 per share basic and diluted, compared to a net loss of \$28.2 million or a loss of \$0.12 per basic and diluted share in the second quarter of 2009. Net income was positively impacted by a 36% increase in realized oil prices in the current quarter compared to the same period in the prior year. Net income was also impacted by a \$3.1 million foreign exchange loss, compared to \$33.7 million in the same quarter of 2009, primarily resulting from the translation of a deferred tax liability.
- Funds flow from operations of \$44.3 million for the three months ended June 30, 2010 increased 23% over the same quarter in the prior year primarily as a result of increased production from three additional development wells drilled in Colombia and a 36% improvement in the oil price received for production.
- Oil and gas property expenditures for the second quarter of 2010 include the successful drilling of the Moqueta – 1 and Costayaco – 11 wells in the Chaza block, in addition to facility construction and other drilling site preparations in the Costayaco block.
- Our cash and cash equivalents of \$293.2 million at June 30, 2010 increased from \$270.8 million at December 31, 2009 as a result of cash provided by operating activities and the issuance of shares upon the exercise of warrants and stock options, partially offset by year-to-date capital expenditures.
- Working capital (including cash and cash equivalents) was \$278.7 million at June 30, 2010, which is a \$63.6 million increase from December 31, 2009, due mainly to the increase our cash position as well as higher accounts receivable from year end. Accounts receivable at any period end other than year end include two months of oil sales in Colombia. Year end accounts receivable traditionally include less than one month of oil sales due to year end settlement of outstanding amounts.
- Property, plant and equipment as at June 30, 2010 was \$693.9 million, a \$18.9 million decrease from December 31, 2009, primarily as a result of depletion, depreciation and accretion (“DD&A”), partially offset by capital additions.

Financial Highlights for the Six Months Ended June 30, 2010

- During the first half of 2010, oil and gas production (net after royalty and inventory adjustments) averaged 14,158 BOEPD, an increase of 23% over the same period in 2009, due mainly to production of crude oil from four new development wells in Colombia.
- Revenue and other income increased by 92% over the same period in 2009 due to increased production and higher oil prices.
- Net income of \$27.3 million or \$0.11 per share basic and \$0.10 per share diluted, compares to a net loss of \$14.1 million, or a net loss of \$0.06 per share basic and diluted in 2009. Net income was positively impacted by a 58% increase in realized oil prices in the six months compared to the same period in the prior year. Net income was also impacted by a \$17.4 million foreign exchange loss (compared to \$13.5 million loss recorded for the same period in 2009), of which \$14.0 million is an unrealized non-cash foreign exchange loss, primarily resulting from the translation of a deferred tax liability.
- Funds flow from operations for the six months ended June 30, 2010 increased 74% to \$98.6 million over the same period in the prior year primarily as a result of increased production from four additional development wells drilled in Colombia and a 58% improvement in the oil price received for production.
- Oil and gas property expenditures for the six months ended June 30, 2010 include the successful drilling of the Juanambu – 2 well in the Guayuyaco block, the successful drilling of the Moqueta – 1 well and Costayaco – 11 well in

the Chaza block, in addition to facility construction and other drilling site preparations in the Costayaco field.

Operational Highlights for the Six Months Ended June 30, 2010

- Oil Discovery at Moqueta - 1 in Colombia

In June 2010, we confirmed an oil discovery at Moqueta-1 exploration well in the Chaza Block in Colombia. Initial testing without a pump flowed 349 barrels of oil per day “BOPD”, in addition to successful gas testing in a shallower reservoir interval. Subsequent drilling and logging of the Moqueta-2 delineation well in July 2010 suggests net oil pay has increased to 44 feet and gross oil column height has increased to 105 feet in the Caballos reservoir. We anticipate the initiation of long term oil testing and early production in the first quarter of 2011.

- Successful Production Testing of Costayaco - 11

In June 2010, we completed logging operations and initiated production testing of Costayaco – 11. Costayaco – 11 was drilled in the northern portion of the Costayaco field in Colombia, and is expected to be used as a Caballos producer and as a water-injector to provide pressure maintenance in the T-Sandstone reservoir. Costayaco – 11 was tied in and put on production in early July.

- Successful Acreage Awards in Colombia

In June 2010, we were awarded three blocks (Putumayo 10, Cauca 6 and 10) in the 2010 Colombia Bid Round administered by Colombia's National Hydrocarbon Agency. Bid contracts are expected to be finalized by October 2010. We believe Putumayo 10 will enable us to leverage existing knowledge of our Piedemonte Norte and Piedemonte Sur Blocks, while Cauca 6 and 10 provide new frontier exploration opportunities for the company.

- Commenced Drilling Rig Mobilization for VM.x-1001 Gas Well in Argentina

At the end of June 2010, we began mobilization of the drilling rig for the VM.x-1001 gas well in the Valle Morado Block, in Argentina. Drilling of this re-entry and sidetrack well, in the Noroeste Basin, is scheduled to commence in the third quarter of 2010.

- Successful Production Testing of Juanambu - 2

In February 2010, we completed logging operations of the Juanambu - 2 development well in the Juanambu field discovered in 2007 in the Guayuyaco Block in Colombia. Testing of the well was completed early in March 2010 and the well came on production later in the month.

- Dantayaco -1 Exploration Well

Drilling was completed on the Dantayaco - 1 exploration well in the Chaza Block, in the Putumayo basin of Colombia, at the end of 2009. During testing, only formation water was recovered and the well was plugged and abandoned on January 3, 2010.

- Environmental Impact Assessment ("EIA") Approval in Peru

The EIA approval for seismic and drilling operations has been received for Block 128, Marañon Basin, Peru. Amendments to this approval are being reviewed. Seismic crew mobilization commenced at the end of the second quarter, with drilling of up to four wells in Peru expected to commence in the fourth quarter of 2010 and continue into early 2011.

Consolidated Results of Operations

Consolidated Results of Operations (Thousands of U.S. Dollars)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Oil and natural gas sales	\$ 83,717	\$ 58,284	44	\$ 176,649	\$ 91,435	93
Interest	397	227	75	575	641	(10)
	84,114	58,511	44	177,224	92,076	92
Operating expenses	9,529	8,878	7	19,714	15,964	23
Depletion, depreciation, accretion, and impairment	31,641	32,691	(3)	71,984	60,220	20
General and administrative expenses	9,594	7,025	37	16,784	12,150	38
Foreign exchange loss	3,126	33,708	(91)	17,420	13,486	29
	-	284	-	(44)	284	(115)

Derivative financial instruments
loss (gain)

53,890

82,586

(35)

125,858

102,104