

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
OIL AND NATURAL GAS SALES (NOTE 4)	\$ 68,539	\$ 75,653	\$ 197,655	\$ 221,234
EXPENSES				
Operating	25,638	20,894	62,453	61,313
Transportation	5,773	12,857	24,318	28,005
Depletion, depreciation and accretion (Note 4)	35,729	55,015	104,525	143,343
Asset impairment (Notes 4 and 5)	319,974	149,978	469,715	217,277
General and administrative (Note 4)	5,592	7,863	20,614	25,455
Transaction (Note 3)	6,088	—	7,325	—
Severance	—	461	1,299	6,827
Equity tax (Note 9)	—	—	3,053	3,769
Foreign exchange (gain) loss	(507)	(12,923)	1,059	(21,492)
Financial instruments loss (Note 11)	2,051	2,670	1,824	1,262
Interest expense (Note 6)	5,122	—	7,842	—
	405,460	236,815	704,027	465,759
GAIN ON ACQUISITION (NOTE 3)	—	—	11,712	—
INTEREST INCOME	730	266	1,928	1,069
LOSS BEFORE INCOME TAXES (NOTE 4)	(336,191)	(160,896)	(492,732)	(243,456)
INCOME TAX (EXPENSE) RECOVERY				
Current	(3,879)	(3,523)	(11,680)	(11,632)
Deferred	110,451	62,542	166,202	69,781
	106,572	59,019	154,522	58,149
NET LOSS AND COMPREHENSIVE LOSS	\$ (229,619)	\$ (101,877)	\$ (338,210)	\$ (185,307)
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.71)	\$ (0.36)	\$ (1.11)	\$ (0.65)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED (Note 7)	321,725,379	285,592,382	304,098,944	286,057,952

(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)

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 48,073	\$ 145,342
Restricted cash (Notes 3, 5 and 8)	13,198	92
Accounts receivable	20,834	29,217
Marketable securities (Note 11)	2,536	6,250
Derivatives (Note 11)	5,226	—
Inventory (Note 5)	11,808	19,056
Taxes receivable	31,660	28,635
Other current assets	3,003	5,848
Total Current Assets	136,338	234,440
Oil and Gas Properties		
Proved	429,105	469,589
Unproved	766,902	310,771
Total Oil and Gas Properties	1,196,007	780,360
Other capital assets	7,924	8,633
Total Property, Plant and Equipment (Notes 4 and 5)	1,203,931	788,993
Other Long-Term Assets		
Restricted cash (Notes 3 and 8)	9,993	3,317
Taxes receivable	9,468	8,276
Other long-term assets	24,846	8,511
Goodwill (Note 4)	102,581	102,581
Total Other Long-Term Assets	146,888	122,685
Total Assets (Note 4)	\$ 1,487,157	\$ 1,146,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 96,829	\$ 70,778
Short-term debt (Notes 6 and 11)	127,519	—
Taxes payable	6,444	1,067
Asset retirement obligation (Note 8)	3,673	2,146
Total Current Liabilities	234,465	73,991
Long-Term Liabilities		
Long-term debt (Notes 6 and 11)	172,790	—
Deferred tax liabilities	161,080	34,592
Asset retirement obligation (Note 8)	45,028	31,078
Other long-term liabilities	11,214	4,815
Total Long-Term Liabilities	390,112	70,485
Contingencies (Note 10)		
Subsequent Events (Note 13)		
Shareholders' Equity		
Common Stock (Note 7) (347,291,709 and 273,442,799 shares of Common Stock and 8,380,379 and 8,572,066 exchangeable shares, par value \$0.001 per share, issued and outstanding as at September 30, 2016, and December 31, 2015, respectively)	10,260	10,186
Additional paid in capital	1,218,937	1,019,863
Deficit	(366,617)	(28,407)
Total Shareholders' Equity	862,580	1,001,642
Total Liabilities and Shareholders' Equity	\$ 1,487,157	\$ 1,146,118

(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,	
	2016	2015
Operating Activities		
Net loss	\$ (338,210)	\$ (185,307)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and accretion (Note 4)	104,525	143,343
Asset impairment (Notes 4 and 5)	469,715	217,277
Deferred tax recovery	(166,202)	(69,781)
Stock-based compensation expense (Note 7)	4,380	2,126
Amortization of debt issuance costs (Note 6)	2,813	—
Cash settlement of restricted share units	(1,210)	(1,363)
Unrealized foreign exchange loss (gain)	2,437	(13,093)
Financial instruments loss (Note 11)	1,824	1,262
Cash settlement of financial instruments	438	(3,749)
Cash settlement of asset retirement obligation (Note 8)	(496)	(4,768)
Gain on acquisition (Note 3)	(11,712)	—
Net change in assets and liabilities from operating activities (Note 12)	18,097	(27,368)
Net cash provided by operating activities	<u>86,399</u>	<u>58,579</u>
Investing Activities		
(Increase) decrease in restricted cash	(5,334)	298
Additions to property, plant and equipment, excluding Corporate acquisition (Note 4)	(69,667)	(114,793)
Additions to property, plant and equipment - acquisition of PetroGranada Colombia Limited (Note 5)	(19,388)	—
Changes in non-cash investing working capital	(8,036)	(76,744)
Cash paid for business combinations, net of cash acquired (Note 3)	(471,631)	—
Proceeds from sale of marketable securities (Note 11)	788	—
Net cash used in investing activities	<u>(573,268)</u>	<u>(191,239)</u>
Financing Activities		
Proceeds from issuance of subscription receipts, net of issuance costs (Note 7)	165,805	—
Proceeds from issuance of Convertible Senior Notes, net of issuance costs (Note 6)	109,090	—
Proceeds from other debt, net of issuance costs (Note 6)	220,169	—
Repayment of debt (Note 6)	(110,181)	—
Proceeds from issuance of shares of Common Stock (Note 7)	5,169	602
Repurchase of shares of Common Stock	—	(6,616)
Net cash provided by (used in) financing activities	<u>390,052</u>	<u>(6,014)</u>
Foreign exchange loss on cash and cash equivalents	(452)	(6,196)
Net decrease in cash and cash equivalents	(97,269)	(144,870)
Cash and cash equivalents, beginning of period	145,342	331,848
Cash and cash equivalents, end of period	<u>\$ 48,073</u>	<u>\$ 186,978</u>
Supplemental cash flow disclosures (Note 12)		

(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 September 30, <u>2016</u>	Year Ended December 31, <u>2015</u>
Share Capital		
Balance, beginning of period	\$ 10,186	\$ 10,190
Issuance of Common Stock (Note 7)	74	—
Repurchase of Common Stock	—	(4)
Balance, end of period	<u>10,260</u>	<u>10,186</u>
Additional Paid in Capital		
Balance, beginning of period	1,019,863	1,026,873
Issuance of Common Stock, net of share issuance costs (Note 7)	191,364	—
Exercise of stock options (Note 7)	5,347	722
Stock-based compensation (Note 7)	2,363	2,263
Repurchase of Common Stock	—	(9,995)
Balance, end of period	<u>1,218,937</u>	<u>1,019,863</u>
Retained Earnings (Deficit)		
Balance, beginning of period	(28,407)	239,622
Net loss	(338,210)	(268,029)
Balance, end of period	<u>(366,617)</u>	<u>(28,407)</u>
Total Shareholders' Equity	<u><u>\$ 862,580</u></u>	<u><u>\$ 1,001,642</u></u>

(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.

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, 2015, included in the Company’s 2015 Annual Report on Form 10-K, filed with the SEC on February 29, 2016.

The Company’s significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company’s 2015 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.

Convertible Senior Notes

The Company accounts for its 5.00% Convertible Senior Notes due 2021 (the “Notes”) as a liability in their entirety. The embedded features of the Notes were assessed for bifurcation from the Notes under the applicable provisions, including the basic conversion feature, the fundamental change make-whole provision and the put and call options. Based on an assessment, the Company concluded that these embedded features did not meet the criteria to be accounted for separately.

The Company incurred debt issuance costs in connection with the issuance of the Notes which have been presented as a direct deduction against the carrying amount of the Notes and are being amortized to interest expense using the effective interest method over the contractual term of the Notes.

Derivatives

The Company’s commodity price and foreign currency derivatives are recorded on its interim unaudited condensed consolidated balance sheet at fair value as either an asset or a liability with changes in fair value recognized in the interim unaudited condensed consolidated statements of operations. While the Company utilizes derivative instruments to manage the price risk attributable to its expected oil production and foreign exchange risk, it has elected not to designate its derivative instruments as accounting hedges under the accounting guidance.

Recently Adopted Accounting Pronouncements

Simplifying the Accounting for Measurement - Period Adjustments

In September 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-16, “Simplifying the Accounting for Measurement - Period Adjustments”. The amendments require that an acquirer recognize adjustments to provisional amounts identified during the measurement period in the reporting period in which the adjustments are determined and eliminates the requirement to retrospectively revise prior periods. Additionally, an acquirer should record in the same period the effects on earnings of any changes in the provisional accounts, calculated as if the accounting had been completed at the acquisition date. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The implementation of this update did not materially impact the Company’s consolidated financial position, results of operations or cash flows or disclosure.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments". This ASU addresses specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company implemented this update retrospectively in its consolidated financial statements for the interim period ended September 30, 2016. The implementation of this update did not materially impact the Company's consolidated financial position, results of operations or cash flows or disclosure.

Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance regarding the accounting for revenue from contracts with customers. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date". The ASU defers the effective date of the new revenue recognition model by one year. As a result, the guidance will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017.

In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" which clarifies implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing" which clarifies implementation guidance. In May 2016, the FASB issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients" which reduces the potential for diversity in practice at initial application and the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is currently assessing the impact the new revenue recognition model will have on its consolidated financial position, results of operations, cash flows, and disclosure.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases". This ASU will require most lease assets and lease liabilities to be recognized on the balance sheet and the disclosure of key information about lease arrangements. The ASU will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the impact the new lease standard will have on its consolidated financial position, results of operations, cash flows, and 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 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact this update will have on its consolidated financial position, results of operations, cash flows, and disclosure.

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses". This ASU replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to support credit loss estimates. The ASU will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company is currently assessing the impact this update will have on its consolidated financial position, results of operations, cash flows, and disclosure.

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

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other than Inventory". Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity transfer until the asset has been sold to an outside party. This ASU eliminates the exception for intra-entity transfers of assets other than inventory and requires the income tax consequences of an intra-entity transfer of an asset other than inventory to be recognized when the transfer occurs. The ASU will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted as of the beginning of an annual reporting period. The amendments in the ASU shall be applied on a

modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact this update will have on its consolidated financial position, results of operations, cash flows, and disclosure.

3. Business Combinations

a) PetroLatina Energy Ltd.

On August 23, 2016 (the "PetroLatina Acquisition Date"), the Company acquired all of the issued and outstanding common shares of PetroLatina Energy Ltd. ("PetroLatina") for \$525.0 million, consisting of cash consideration of \$442.6 million, a deferred cash payment of \$25.0 million to be paid prior to December 31, 2016, assumption of a reserve-backed credit facility with an outstanding balance of \$80.0 million (Note 6), net working capital of \$15.5 million, and other closing adjustments. Upon completion of the transaction on the PetroLatina Acquisition Date, Gran Tierra repaid and canceled the reserve-based credit facility and PetroLatina became an indirect wholly-owned subsidiary of Gran Tierra.

PetroLatina is an exploration and production company, incorporated in England and Wales, with assets primarily in the Middle Magdalena Basin of Colombia. The acquisition added a new core area for Gran Tierra in the prolific Middle Magdalena Basin and was accounted for as a business combination using the acquisition method, with Gran Tierra being the acquirer, whereby the assets acquired and liabilities assumed were recognized at their fair values as at the PetroLatina Acquisition Date, and the results of PetroLatina were included with those of Gran Tierra from that date. Fair value estimates were made based on significant unobservable (Level 3) inputs and based on the best information available at the time.

The following table shows the allocation of the consideration based on the fair values of the assets and liabilities acquired:

(Thousands of U.S. Dollars)

Consideration Paid:

Purchase price	\$	525,000
Purchase price adjustments:		
PetroLatina's long-term debt assumed		(80,000)
Working capital and other		16,350
Total cash consideration		461,350
Deferred cash payment		(25,000)
Estimated post-closing adjustments		6,241
Cash consideration paid	\$	442,591

Allocation of Total Consideration⁽¹⁾:

Oil and gas properties		
Proved	\$	364,353
Unproved		422,734
Net working capital (including cash acquired of \$21.9 million, restricted cash of \$0.7 million and accounts receivable of \$4.0 million)		15,486
Long-term restricted cash		3,017
Long-term debt		(80,000)
Long-term deferred tax liability		(259,401)
Long-term portion of asset retirement obligation		(3,870)
Other long-term liabilities		(969)
	\$	461,350

⁽¹⁾ The allocation of the consideration is incomplete and is subject to change. Management is continuing to review and assess information to accurately determine the acquisition date fair value of the assets and liabilities acquired. During the measurement period, Gran Tierra will continue to obtain information to assist in finalizing the fair value of net assets acquired, which may differ materially from the above preliminary estimates.

The Company's consolidated statement of operations for the three and nine months ended September 30, 2016, included oil and gas sales of \$5.3 million and a loss after tax of \$193.5 million from PetroLatina for the period subsequent to the PetroLatina Acquisition Date.

Pro Forma Results (unaudited)

Pro forma results for the nine months ended September 30, 2016 and 2015, are shown below, as if the acquisition had occurred on January 1, 2015. Pro forma results are not indicative of actual results or future performance.

(Unaudited, thousands of U.S. Dollars, except per share amounts)	Nine Months Ended September 30,	
	2016	2015
Oil and gas sales	\$ 231,652	\$ 288,538
Net loss	\$ (339,441)	\$ (233,644)
Net loss per share - basic and diluted	\$ (1.12)	\$ (0.82)

The supplemental pro forma net loss of Gran Tierra for the nine months ended September 30, 2016, was adjusted to exclude \$6.1 million of transaction expenses because they were not expected to have a continuing impact on Gran Tierra's results of operations.

b) Petroamerica Oil Corp.

On January 13, 2016 (the "Petroamerica Acquisition Date"), the Company acquired all of the issued and outstanding common shares of Petroamerica Oil Corp. ("Petroamerica"), a Canadian corporation, pursuant to the terms and conditions of an arrangement agreement dated November 12, 2015 (the "Arrangement"). The transaction contemplated by the Arrangement was effected through a court approved plan of arrangement in Canada. The Arrangement was approved at a special meeting of Petroamerica shareholders and by the Court of Queen's Bench of Alberta on January 11, 2016. Under the Arrangement, each Petroamerica shareholder was entitled to receive, for each Petroamerica share held, either 0.40 of a Gran Tierra common share or \$1.33 Canadian dollars in cash, or a combination of shares and cash, subject to a maximum of 70% of the consideration payable in cash.

As consideration for the acquisition of all the issued and outstanding Petroamerica shares, the Company issued approximately 13.7 million shares of Gran Tierra Common Stock, par value \$0.001, and paid cash consideration of approximately \$70.6 million. The fair value of Gran Tierra's Common Stock issued was determined to be \$25.8 million based on the closing price of shares of Common Stock of Gran Tierra as at the Petroamerica Acquisition Date. Total net purchase price of Petroamerica was \$72.2 million, after giving consideration to net working capital of \$24.2 million. Upon completion of the transaction on the Petroamerica Acquisition Date, Petroamerica became an indirect wholly-owned subsidiary of Gran Tierra.

The acquisition was accounted for as a business combination using the acquisition method, with Gran Tierra being the acquirer, whereby the assets acquired and liabilities assumed were recognized at their fair values as at the Petroamerica Acquisition Date, and the results of Petroamerica were included with those of Gran Tierra from that date. Fair value estimates were made based on significant unobservable (Level 3) inputs and based on the best information available at the time.

The following table shows the allocation of the consideration paid based on the fair values of the assets and liabilities acquired:

(Thousands of U.S. Dollars)

Consideration Paid:

Cash	\$	70,625
Issuance of Common Shares, net of share issuance costs		25,811
	\$	<u>96,436</u>

Allocation of Consideration Paid⁽¹⁾:

Oil and gas properties		
Proved	\$	48,595
Unproved		50,054
Net working capital (including cash acquired of \$19.7 million, restricted cash of \$2.5 million and accounts receivable of \$5.0 million)		24,202
Long-term restricted cash		8,167
Other long-term assets		1,570
Long-term deferred tax liability		(10,105)
Long-term portion of asset retirement obligation		(11,556)
Other long-term liabilities		(2,779)
Gain on acquisition		(11,712)
	\$	<u>96,436</u>

⁽¹⁾ The allocation of the consideration paid is incomplete and is subject to change. Management is continuing to review and assess information to accurately determine the acquisition date fair value of the assets and liabilities acquired. During the measurement period, Gran Tierra will continue to obtain information to assist in finalizing the fair value of net assets acquired, which may differ materially from the above preliminary estimates.

As indicated in the allocation of the consideration paid, the fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration paid. Consequently, Gran Tierra reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. As a result, Gran Tierra recognized a “Gain on acquisition” of \$11.7 million in the interim unaudited condensed consolidated statement of operations for the nine months ended September 30, 2016. The gain reflects the impact on Petroamerica’s pre-acquisition market value resulting from the company’s lack of liquidity and capital resources required to maintain current production and reserves and further develop and explore their inventory of prospects.

The Company’s consolidated statement of operations for the nine months ended September 30, 2016, included oil and gas sales of \$12.6 million and a loss after tax of \$24.1 million from Petroamerica for the period subsequent to the Petroamerica Acquisition Date.

Pro Forma Results (unaudited)

Pro forma results for the nine months ended September 30, 2016 and 2015, are shown below, as if the acquisition had occurred on January 1, 2015. Pro forma results are not indicative of actual results or future performance.

(Unaudited, thousands of U.S. Dollars, except per share amounts)	Nine Months Ended September 30,	
	2016	2015
Oil and gas sales	\$ 198,125	\$ 267,049
Net loss	\$ (349,935)	\$ (218,302)
Net loss per share - basic and diluted	\$ (1.15)	\$ (0.76)

The supplemental pro forma net loss of Gran Tierra for the nine months ended September 30, 2016, was adjusted to exclude the \$11.7 million gain on acquisition and \$1.2 million of transaction expenses because they were not expected to have a continuing impact on Gran Tierra’s results of operations.

4. Segment and Geographic Reporting

The Company is primarily engaged in the exploration and production of oil and natural gas. The Company's reportable segments are Colombia, Peru and Brazil based on geographic organization. The All Other category represents the Company's corporate activities. The Company evaluates reportable segment performance based on income or loss before income taxes.

The following tables present information on the Company's reportable segments and other activities:

Three Months Ended September 30, 2016					
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Oil and natural gas sales	\$ 65,944	\$ —	\$ 2,595	\$ —	\$ 68,539
Depletion, depreciation and accretion	34,156	206	1,022	345	35,729
Asset impairment	298,370	—	21,604	—	319,974
General and administrative expenses	1,921	218	218	3,235	5,592
Loss before income taxes	(299,306)	(768)	(20,977)	(15,140)	(336,191)
Segment capital expenditures ⁽¹⁾	20,476	1,360	3,102	142	25,080
Three Months Ended September 30, 2015					
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Oil and natural gas sales	\$ 73,557	\$ —	\$ 2,096	\$ —	\$ 75,653
Depletion, depreciation and accretion	52,617	194	1,796	408	55,015
Asset impairment	129,364	3,014	17,600	—	149,978
General and administrative expenses	2,095	936	532	4,300	7,863
Loss before income taxes	(130,154)	(5,020)	(18,540)	(7,182)	(160,896)
Segment capital expenditures	17,811	3,873	1,779	12	23,475
Nine Months Ended September 30, 2016					
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Oil and natural gas sales	\$ 191,515	\$ —	\$ 6,140	\$ —	\$ 197,655
Depletion, depreciation and accretion	100,350	418	2,764	993	104,525
Asset impairment	431,810	899	37,006	—	469,715
General and administrative expenses	9,614	1,014	751	9,235	20,614
Loss before income taxes	(436,863)	(2,224)	(36,523)	(17,122)	(492,732)
Segment capital expenditures ⁽¹⁾	56,997	3,730	7,982	958	69,667
Nine Months Ended September 30, 2015					
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Oil and natural gas sales	\$ 215,251	\$ —	\$ 5,983	\$ —	\$ 221,234
Depletion, depreciation and accretion	135,933	608	5,632	1,170	143,343
Asset impairment	129,364	40,980	46,933	—	217,277
General and administrative expenses	7,846	3,249	2,124	12,236	25,455
Loss before income taxes	(124,029)	(48,723)	(53,632)	(17,072)	(243,456)
Segment capital expenditures	47,106	48,450	18,190	1,047	114,793

⁽¹⁾ On January 13, 2016 and August 23, 2016, respectively, the Company acquired all of the issued and outstanding common shares of Petroamerica and PetroLatina, which acquisitions were accounted for as business combinations (Note 3) and, therefore, property, plant and equipment acquired are not reflected in the table above. Additionally, on January 25, 2016, the Company acquired all of the issued and outstanding common shares of PetroGranada Colombia Limited ("PGC"), which acquisition was accounted for as an asset acquisition (Note 5) and property, plant and equipment acquired in this acquisition are not reflected in the table above.

	As at September 30, 2016				
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Property, plant and equipment	\$ 1,018,328	\$ 97,726	\$ 83,888	\$ 3,989	\$ 1,203,931
Goodwill	102,581	—	—	—	102,581
All other assets	145,091	14,344	2,397	18,813	180,645
Total Assets	<u>\$ 1,266,000</u>	<u>\$ 112,070</u>	<u>\$ 86,285</u>	<u>\$ 22,802</u>	<u>\$ 1,487,157</u>

	As at December 31, 2015				
(Thousands of U.S. Dollars)	Colombia	Peru	Brazil	All Other	Total
Property, plant and equipment	\$ 574,351	\$ 95,069	\$ 115,552	\$ 4,021	\$ 788,993
Goodwill	102,581	—	—	—	102,581
All other assets	93,479	21,111	2,236	137,718	254,544
Total Assets	<u>\$ 770,411</u>	<u>\$ 116,180</u>	<u>\$ 117,788</u>	<u>\$ 141,739</u>	<u>\$ 1,146,118</u>

5. Property, Plant and Equipment and Inventory

Property, Plant and Equipment

(Thousands of U.S. Dollars)	As at September 30, 2016	As at December 31, 2015
Oil and natural gas properties		
Proved	\$ 2,522,705	\$ 1,998,330
Unproved	766,902	310,771
	<u>3,289,607</u>	<u>2,309,101</u>
Other	28,805	28,342
	<u>3,318,412</u>	<u>2,337,443</u>
Accumulated depletion, depreciation and impairment	(2,114,481)	(1,548,450)
	<u>\$ 1,203,931</u>	<u>\$ 788,993</u>

In the three and nine months ended September 30, 2016, the Company recorded ceiling test impairment losses in its Colombia cost center of \$298.4 million and \$431.1 million, respectively, and in its Brazil cost center of \$21.6 million and \$37.0 million, respectively. The Colombia ceiling test impairment loss related to lower oil prices and the fact that the acquisition of PetroLatina was added into the cost base at fair value (Note 3). However, these acquired assets were subjected to a prescribed U.S. GAAP ceiling test, which is not a fair value test, and which, as noted below, uses constant commodity pricing that averages prices during the preceding 12 months. The Brazil ceiling test impairment loss related to continued low oil prices and increased costs in the depletable base as a result of a \$19.3 million impairment of unproved properties.

In the three and nine months ended September 30, 2015, the Company recorded ceiling test impairment losses of \$129.4 million in its Colombia cost center, and \$17.6 million and \$46.9 million, respectively, in its Brazil cost center, related to lower oil prices.

The Company follows the full cost method of accounting for its oil and gas properties. Under this method, the net book value of properties on a country-by-country basis, less related deferred income taxes, may not exceed a calculated “ceiling”. The ceiling is the estimated after tax future net revenues from proved oil and gas properties, discounted at 10% per year. In calculating discounted future net revenues, oil and natural gas prices are determined using the average price during the 12 months period prior to the ending date of the period covered by the balance sheet, calculated as an unweighted arithmetic average of the first-day-of-the month price for each month within such period for that oil and natural gas. That average price is then held constant, except for changes which are fixed and determinable by existing contracts. Therefore, ceiling test estimates are based on historical prices discounted at 10% per year and it should not be assumed that estimates of future net revenues represent the fair market value of the Company's reserves. In accordance with GAAP, we used an average Brent price of \$42.23 per bbl for the purposes of the September 30, 2016, ceiling test calculations (June 30, 2016 - \$44.48; March 31, 2016 - \$48.79; December 31, 2015 - \$54.08).

In the nine months ended September 30, 2016, the Company recorded impairment losses in its Peru cost center of \$0.9 million (three and nine months ended September 30, 2015 - \$3.0 million and \$41.0 million, respectively), related to costs incurred on Block 95. In the three months ended September 30, 2016, the Company ceased the impairment of costs incurred on Block 95 as a result of the effect of a revised field development plan for the Block.

Asset impairment for the three and nine months ended September 30, 2016, and 2015 was as follows:

(Thousands of U.S. Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Impairment of oil and gas properties	\$ 319,974	\$ 149,978	\$ 469,051	\$ 217,277
Impairment of inventory	—	—	664	—
	<u>\$ 319,974</u>	<u>\$ 149,978</u>	<u>\$ 469,715</u>	<u>\$ 217,277</u>

Acquisition of PGC

On January 25, 2016, the Company acquired all of the issued and outstanding common shares of PGC, pursuant to the terms and conditions of an acquisition agreement dated January 14, 2016. PGC is an oil and gas exploration, development and production company active in Colombia. Upon completion of the transaction, PGC became an indirect wholly-owned subsidiary of Gran Tierra. The net purchase price of PGC was \$19.4 million, after giving consideration to net working capital of \$18.3 million. The acquisition was accounted for as an asset acquisition with the excess consideration paid over the fair value of the net assets acquired allocated on a relative fair value basis to the net assets acquired.

The following table shows the allocation of the cost of the acquisition based on the relative fair values of the assets and liabilities acquired:

(Thousands of U.S. Dollars)

Cost of asset acquisition:

Cash	\$	37,727
Allocation of Consideration Paid:		
Oil and gas properties		
Proved	\$	12,228
Unproved		15,563
		27,791
Net working capital (including cash acquired of \$0.2 million and restricted cash of \$18.6 million)		18,339
Long-term deferred tax liability		(8,403)
	\$	37,727

Contingent consideration of \$4.0 million will be payable if cumulative production from the Putumayo-7 Block plus gross proved plus probable reserves under the Putumayo-7 Block meet or exceed 8 MMbbl. Contingent consideration will be recognized when the contingency is resolved and the consideration is paid or becomes payable.

Inventory

At September 30, 2016, oil and supplies inventories were \$9.6 million and \$2.2 million, respectively (December 31, 2015 - \$17.8 million and \$1.3 million, respectively). At September 30, 2016, the Company had 269 Mbbl of oil inventory (December 31, 2015 - 616 Mbbl) NAR. In the nine months ended September 30, 2016, the Company recorded oil inventory impairment of \$0.7 million (nine months ended September 30, 2015 - \$nil) related to lower oil prices. In the three months ended September 30, 2016, and 2015, oil inventory impairment was \$nil.

6. Debt and Debt Issuance Costs

The Company's debt at September 30, 2016, and December 31, 2015, was as follows:

(Thousands of U.S. Dollars)	As at September 30, 2016	As at December 31, 2015
Convertible senior notes (a)	\$ 115,000	\$ —
Bridge loan facility (b)	130,000	—
Revolving credit facility (b)	65,000	—
Unamortized debt issuance costs	(9,691)	—
	300,309	—
Short-term debt	(127,519)	—
Long-term debt	\$ 172,790	\$ —

a) Convertible Senior Notes

On April 6, 2016, the Company issued \$100 million aggregate principal amount of Notes in a private placement to qualified institutional buyers. On April 22, 2016, the Company issued an additional \$15 million aggregate principal amount of the Notes pursuant to the underwriters' exercise of their option to acquire additional Notes. The Notes bear interest at a rate of 5.00% per year, payable semi-annually in arrears on April 1 and October 1 of each year, beginning on October 1, 2016. The Notes will mature on April 1, 2021, unless earlier redeemed, repurchased or converted.

The Notes are convertible at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date. The conversion rate is initially 311.4295 shares of Common Stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of approximately \$3.21 per share of Common Stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances.

The Company may not redeem the Notes prior to April 5, 2019, except in certain circumstances following a fundamental change (as defined in the indenture governing the Notes). The Company may redeem for all cash or any portion of the Notes, at its option, on or after April 5, 2019, if (terms below are as defined in the indenture governing the Notes):

- (i) the last reported sale price of the Company's Common Stock has been at least 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption; and
- (ii) the Company has filed all reports that it is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (other than current reports on Form 8-K), during the twelve months preceding the date on which the Company provides such notice.

The redemption price will be equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. No sinking fund is provided for the Notes.

If the Company undergoes a fundamental change, holders may require the Company to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

Net proceeds from the sale of the Notes were \$109.1 million, after deducting the initial purchasers' discount and the offering expenses payable by the Company.

b) Credit Facility - Revolving Credit Facility and Bridge Loan Facility

At September 30, 2016, the Company had a revolving credit facility with a syndicate of lenders.

Availability under the revolving credit facility is determined by a proven reserves-based borrowing base, and remains subject to the satisfaction of conditions precedent set forth in the credit agreement. On June 2, 2016, the Company entered into a Second Amendment (the "Second Amendment") to its credit agreement dated September 18, 2015 (the "Credit Agreement"). Pursuant to the Second Amendment, among other things, the committed borrowing base under the Company's revolving credit facility was reduced from \$200 million to \$185 million, with \$160 million readily available and \$25 million subject to the consent of all lenders. Further, the amount of permitted senior debt under the Company's revolving credit facility was decreased from \$600 million to \$500 million. The borrowing base will be re-determined semi-annually. The credit agreement includes a letter of credit sub-limit of up to \$100 million.

Amounts drawn down under the revolving credit facility bear interest, at the Company's option, at the USD LIBOR rate plus a margin ranging from 2.00% and 3.00% per annum, or an alternate base rate plus a margin ranging from 1.00% per annum to 2.00% per annum, in each case based on the borrowing base utilization percentage. The alternate base rate is currently the U.S. prime rate. Undrawn amounts under the revolving credit facility bear interest at 0.75% per annum, based on the average daily amount of unused commitments. A letter of credit participation fee of 0.25% per annum will accrue on the average daily amount of letter of credit exposure.

On August 23, 2016, the Company entered into a Third Amendment (the "Third Amendment") to the Credit Agreement to add a bridge term loan facility (the "Bridge Loan Facility"), pursuant to which the lenders provided \$130.0 million in secured bridge loan financing to fund a portion of the purchase price of the PetroLatina Acquisition. The Bridge Loan Facility has a term of 364 days, bears interest at USD LIBOR plus 6%, and has customary bridge facility repayment terms, providing for the prepayment of the Bridge Loan Facility upon the occurrence of certain events, including certain debt issuances. It is otherwise on substantially the same terms as the existing secured revolving credit facility.

On August 23, 2016, in connection with the PetroLatina Acquisition, the Company drew \$95.0 million on its revolving credit facility and \$130.0 million on its Bridge Loan Facility. The Company subsequently repaid \$30.0 million of the outstanding balance on its revolving credit facility, resulting in an outstanding balance of \$65.0 million, at September 30, 2016. Borrowings under the Bridge Loan Facility will mature on August 22, 2017, and borrowings under the revolving credit facility will mature on September 18, 2018.

As part of the PetroLatina Acquisition, Gran Tierra assumed PetroLatina's reserve-backed credit facility with an outstanding balance as at the PetroLatina Acquisition Date of \$80.0 million. This credit facility plus accrued interest was repaid by Gran Tierra upon closing of the PetroLatina Acquisition on August 23, 2016.

c) Interest expense

The following table presents total interest expense recognized in the accompanying interim unaudited condensed consolidated statements of operations:

(Thousands of U.S. Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Contractual interest and other financing expenses	\$ 2,938	\$ —	\$ 5,029	\$ —
Amortization of debt issuance costs	2,184	—	2,813	—
	<u>\$ 5,122</u>	<u>\$ —</u>	<u>\$ 7,842</u>	<u>\$ —</u>

The Company incurred debt issuance costs in connection with the issuance of the Notes, the Bridge Loan Facility and its revolving credit facility. As at September 30, 2016, the balance of unamortized debt issuance costs has been presented as a direct deduction against the carrying amount of debt and is being amortized to interest expense using the effective interest method over the term of the debt.

7. 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, one share is designated as Special A Voting Stock, par value \$0.001 per share, and one share is designated as Special B Voting Stock, par value \$0.001 per share.

	Shares of Common Stock	Exchangeable Shares of Gran Tierra Exchangeco Inc.	Exchangeable Shares of Gran Tierra Goldstrike Inc.
Balance, December 31, 2015	273,442,799	4,933,177	3,638,889
Shares issued upon conversion of subscription receipts	57,835,134	—	—
Shares issued for acquisition (Note 3)	13,656,719	—	—
Options exercised	2,165,370	—	—
Exchange of exchangeable shares	191,687	(90,100)	(101,587)
Balance, September 30, 2016	<u>347,291,709</u>	<u>4,843,077</u>	<u>3,537,302</u>

Subscription Receipts

On July 8, 2016, the Company issued approximately 57.8 million subscription receipts ("Subscription Receipts") in a private placement to eligible purchasers at a price of \$3.00 per Subscription Receipt for gross proceeds of approximately \$173.5 million, or net proceeds after share issuance costs of \$165.8 million. The proceeds were used to partially fund the PetroLatina Acquisition. Each Subscription Receipt entitled the holder to automatically receive one common share of the Company upon closing of the PetroLatina Acquisition on the satisfaction of certain conditions. Upon the closing of the PetroLatina Acquisition on August 23, 2016, each Subscription Receipt was converted to one common share.

Loss per Share

Basic loss per share is calculated by dividing loss attributable to common shareholders by the weighted average number of shares of Common Stock and exchangeable shares issued and outstanding during each period. Diluted income (loss) per share is calculated by adjusting the weighted average number of shares of Common Stock and exchangeable shares outstanding for the dilutive effect, if any, of share equivalents. The Company uses the treasury stock method to determine the dilutive effect. This method assumes that all Common Stock equivalents have been exercised at the beginning of the period (or at the time of

issuance, if later), and that the funds obtained thereby were used to purchase shares of Common Stock of the Company at the volume weighted average trading price of shares of Common Stock during the period.

Stock options and shares issuable upon conversion of the Notes were excluded from the diluted loss per share calculation as the stock options and shares issuable upon conversion of the Notes were anti-dilutive.

Equity Compensation Awards

In December 2015, the Company's Board of Directors approved a new equity compensation program for 2016 to realign the Company's compensation programs with its renewed short and long-term strategy. The 2016 equity compensation program reflects the Company's emphasis on pay-for-performance.

In prior years, all equity awards were subject to vesting conditions based solely on the recipient's continued employment over a specified period of time. In contrast, 80% of the equity awards granted in early 2016 consisted of Performance Stock Units ("PSUs") and 20% consisted of stock options. Gran Tierra's Compensation Committee and Board of Directors believed it was important to revise the Company's long-term incentive program to incorporate a new form of equity award that vests based on the achievement of certain key measures of performance. The purpose of this change was to align the Company's executives and employees to achieve the operational goals established by the Board of Directors, total shareholder return and increase the net asset value per share for stockholders. The Company's equity compensation awards outstanding as at September 30, 2016, include PSUs, deferred share units ("DSUs"), restricted stock units ("RSUs") and stock options.

The Company records stock-based compensation expense, measured at the fair value of the awards that are ultimately expected to vest, in the consolidated financial statements. Fair values are determined using pricing models such as the Black-Scholes-Merton or Monte Carlo simulation stock option-pricing models and/or observable share prices. For equity-settled stock-based compensation awards, fair values are determined at the grant date and are recognized over the requisite service period. For cash-settled stock-based compensation awards, fair values are determined at each reporting date and periodic changes are recognized as compensation costs, with a corresponding change to liabilities. Stock-based compensation expense is capitalized as part of oil and natural gas properties or expensed as part of general and administrative ("G&A") or operating expenses, as appropriate.

The following table provides information about PSU, DSU, RSU and stock option activity for the nine months ended September 30, 2016:

	PSUs	DSUs	RSUs	Stock Options	
	Number of Outstanding Share Units	Number of Outstanding Share Units	Number of Outstanding Share Units	Number of Outstanding Stock Options	Weighted Average Exercise Price/Stock Option (\$)
Balance, December 31, 2015	—	—	1,015,457	12,851,557	4.60
Granted	2,985,260	163,566	—	1,627,712	2.67
Exercised	—	—	(469,446)	(2,165,370)	2.47
Forfeited	—	—	(179,340)	(1,655,729)	(6.11)
Expired	—	—	—	(1,517,500)	(6.41)
Balance, September 30, 2016	2,985,260	163,566	366,671	9,140,670	4.19

Stock-based compensation expense for the three months ended September 30, 2016, and 2015, was \$0.9 million and \$1.0 million, respectively, and for the nine months ended September 30, 2016 and 2015, \$4.4 million and \$2.1 million, respectively, and was primarily recorded in G&A expenses.

At September 30, 2016, there was \$9.8 million (December 31, 2015 - \$3.9 million) of unrecognized compensation cost related to unvested PSUs, stock options, DSUs and RSUs which is expected to be recognized over a weighted average period of 2.0 years.

PSUs

PSUs entitle the holder to receive, at the option of the Company, either the underlying number of shares of the Company's Common Stock upon vesting of such units or a cash payment equal to the value of the underlying shares. PSUs will cliff vest

after three years, subject to the continued employment of the grantee. The number of PSUs that vest may range from zero to 200% of the target number granted based on the Company's performance with respect to the applicable performance targets. The performance targets for the PSUs outstanding as at September 30, 2016, are as follows:

- (i) 50% of the award is subject to targets relating to the total shareholder return ("TSR") of the Company against a group of peer companies;
- (ii) 25% of the award is subject to targets relating to net asset value ("NAV") of the Company per share and NAV is based on before tax net present value discounted at 10% of proved plus probable reserves; and
- (iii) 25% of the award is subject to targets relating to the execution of corporate strategy.

The compensation cost of PSUs is subject to adjustment based upon the attainability of these performance targets. No settlement will occur with respect to the portion of the PSU award subject to each performance target for results below the applicable minimum threshold for that target. PSUs in excess of the target number granted will vest and be settled if performance exceeds the targeted performance goals. The Company currently intends to settle PSUs in cash.

DSUs and RSUs

DSUs and RSUs entitle the holder to receive, either the underlying number of shares of the Company's Common Stock upon vesting of such units or, at the option of the Company, a cash payment equal to the value of the underlying shares. The Company's historic practice has been to settle RSUs in cash and the Company currently intends to settle the RSUs and DSUs outstanding as at September 30, 2016 in cash. Once a DSU or RSU is vested, it is immediately settled. During the nine months ended September 30, 2016, DSUs were granted to directors and will vest 100% at such time the grantee ceases to be a member of the Board of Directors.

Stock Options

Each stock option permits the holder to purchase one share of Common Stock at the stated exercise price. The exercise price equals the market price of a share of Common Stock at the time of grant. Stock options generally vest over three years. The term of stock options granted starting in May of 2013 is five years or three months after the grantee's end of service to the Company, whichever occurs first. Stock options granted prior to May of 2013 continue to have a term of ten years or three months after the end of the grantee's service to the Company, whichever occurs first.

For the nine months ended September 30, 2016, 2,165,370 shares of Common Stock were issued for cash proceeds of \$5.2 million (nine months ended September 30, 2015 - \$0.6 million) upon the exercise of stock options.

The weighted average grant date fair value for stock options granted in three months ended September 30, 2016, was \$1.18 (three months ended September 30, 2015 - \$0.95) and for the nine months ended September 30, 2016, was \$1.13 (nine months ended September 30, 2015 - \$1.26).

8. Asset Retirement Obligation

Changes in the carrying amounts of the asset retirement obligation associated with the Company's oil and natural gas properties were as follows:

(Thousands of U.S. Dollars)	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Balance, beginning of period	\$ 33,224	\$ 35,812
Settlements	(681)	(6,317)
Liability incurred	1,413	1,556
Liabilities assumed in acquisitions (Note 3)	15,722	—
Accretion	2,042	1,313
Revisions in estimated liability	(3,019)	860
Balance, end of period	<u>\$ 48,701</u>	<u>\$ 33,224</u>
Asset retirement obligation - current	\$ 3,673	\$ 2,146
Asset retirement obligation - long-term	45,028	31,078
	<u>\$ 48,701</u>	<u>\$ 33,224</u>

For the nine months ended September 30, 2016, settlements included cash payments of \$0.5 million with the balance in accounts payable and accrued liabilities at September 30, 2016. Revisions to estimated liabilities relate primarily to changes in estimates of asset retirement costs and include, but are not limited to, revisions of estimated inflation rates, changes in property lives and the expected timing of settling the asset retirement obligation. At September 30, 2016, the fair value of assets that are legally restricted for purposes of settling the asset retirement obligation was \$12.8 million (December 31, 2015 - \$2.9 million). These assets are accounted for as restricted cash on the Company's interim unaudited condensed consolidated balance sheets.

9. Taxes

The Company's effective tax rate was 31% in the nine months ended September 30, 2016, compared with 24% in the corresponding period in 2015. The Company's effective tax rate differed from the U.S. statutory rate of 35% primarily due to an increase in the valuation allowance, which was largely attributable to impairment losses in Brazil and Colombia, as well as non-deductible local taxes, a third party royalty in Colombia, stock based compensation and a third party royalty in Colombia. These items were partially offset by the impact of foreign taxes, foreign currency translation adjustments and other permanent differences. Other permanent differences mainly related to non-taxable gain arising on the acquisition of Petroamerica, partially offset by prior periods' true-up adjustments, uncertain tax position adjustments and other expenses deductible for tax purposes. The deferred tax recovery for nine months ended September 30, 2016, included \$172.5 million associated with the ceiling test impairment loss in Colombia.

On December 23, 2014, the Colombian Congress passed a law which imposes an equity tax levied on Colombian operations for 2015, 2016 and 2017. The equity tax is calculated based on a legislated measure, which is based on the Company's Colombian legal entities' balance sheet equity for tax purposes at January 1, 2015. This measure is subject to adjustment for inflation in future years. The equity tax rates for January 1, 2015, 2016 and 2017, are 1.15%, 1% and 0.4%, respectively. The legal obligation for each year's equity tax liability arises on January 1 of each year; therefore, the Company recognized the annual amounts of \$3.1 million and \$3.8 million, respectively, for the equity tax expense in the consolidated statement of operations during the three months ended March 31, 2016, and 2015, and a corresponding payable on the consolidated balance sheet at March 31, 2016, and 2015. These amounts were paid in May and September of each year and at September 30, 2016, accounts payable included \$nil (December 31, 2015 - \$nil).

10. Contingencies

On June 6, 2016, the Company received a positive decision from the Chamber of Commerce of Bogotá Center for Arbitration and Conciliation tribunal (the "Tribunal") relating to its dispute with the Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) of Colombia ("ANH") with respect to whether all production from the Moqueta Exploitation Area of the Chaza Block exploration and production contract ("Chaza Contract") was subject to an additional royalty (the "HPR Royalty"). In its decision, the Tribunal found that the HPR Royalty under the Chaza Contract was only payable when the accumulated oil production from the Moqueta Exploitation Area exceeded 5.0 MMbbl. That production threshold was reached on April 30, 2015, and since that time the Company has been paying the HPR Royalty on production from the Moqueta Exploitation Area.

The ANH and Gran Tierra are engaged in ongoing discussions regarding the interpretation of whether certain transportation and related costs are eligible to be deducted in the calculation of the HPR royalty. Based on the Company's understanding of the

ANH's position, the estimated compensation which would be payable if the ANH's interpretation is correct could be up to \$45.4 million as at September 30, 2016. At this time no amount has been accrued in the interim unaudited condensed consolidated financial statements as Gran Tierra does not consider it probable that a loss will be incurred.

The Company provided the purchaser of its Argentina business unit with certain indemnifications. The Company remains responsible for certain contingent liabilities related to such indemnifications, subject to defined limitations. The Company does not believe that these obligations are probable of having a material impact on its consolidated financial position, results of operations or cash flows.

In addition to the above, Gran Tierra has a number of other lawsuits and claims pending. Although the outcome of these other lawsuits and disputes cannot be predicted with certainty, Gran Tierra believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. Gran Tierra records costs as they are incurred or become probable and determinable.

Letters of credit

At September 30, 2016, the Company had provided promissory notes totaling \$111.0 million (December 31, 2015 - \$76.5 million) as security for letters of credit relating to work commitment guarantees contained in exploration contracts and other capital or operating requirements.

11. Financial Instruments and Fair Value Measurement

Financial Instruments

At September 30, 2016, the Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, restricted cash, accounts receivable, trading securities, derivatives assets, accounts payable and accrued liabilities, short-term and long-term debt, PSU liability included in other long-term liabilities, and RSU liability included in accounts payable and accrued liabilities and other long-term liabilities.

Fair Value Measurement

The fair value of trading securities, derivative assets and RSU and PSU liabilities are being remeasured at the estimated fair value at the end of each reporting period.

The fair value of trading securities which were received as consideration on the sale of the Company's Argentina business unit is estimated based on quoted market prices in an active market.

The fair value of commodity price and foreign currency derivatives is estimated based on various factors, including quoted market prices in active markets and quotes from third parties. The Company also performs an internal valuation to ensure the reasonableness of third party quotes. In consideration of counterparty credit risk, the Company assessed the possibility of whether the counterparty to the derivative would default by failing to make any contractually required payments. Additionally, the Company considers that it is of substantial credit quality and has the financial resources and willingness to meet its potential repayment obligations associated with the derivative transactions.

The fair value of the RSU liability was estimated based on quoted market prices in an active market. The fair value of the PSU liability was estimated based on quoted market prices in an active market and an option pricing model such as the Monte Carlo simulation option-pricing models.

The fair value of trading securities, derivative assets, and RSU and PSU liabilities at September 30, 2016, and December 31, 2015, were as follows:

(Thousands of U.S. Dollars)	As at September 30, 2016	As at December 31, 2015
Trading securities	\$ 2,536	\$ 6,250
Commodity price derivative asset	3,707	—
Foreign currency derivative asset	1,519	—
	<u>\$ 7,762</u>	<u>\$ 6,250</u>
RSU and PSU liability	\$ 2,485	\$ 1,189

During the three months ended September 30, 2016, the Company sold trading securities for cash proceeds of \$0.8 million (three months ended September 30, 2015 - \$nil).

The following table presents gains or losses on financial instruments recognized in the accompanying interim unaudited condensed consolidated statements of operations:

(Thousands of U.S. Dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Trading securities loss	\$ 701	\$ 2,670	\$ 2,926	\$ 570
Commodity price derivative loss	2,190	—	856	—
Foreign currency derivatives (gain) loss	(840)	—	(1,958)	692
Financial instruments loss	<u>\$ 2,051</u>	<u>\$ 2,670</u>	<u>\$ 1,824</u>	<u>\$ 1,262</u>

These gains and losses are presented as financial instruments gains or losses in the interim unaudited condensed consolidated statements of operations and cash flows. Of the trading securities loss, \$0.7 million for the three months ended September 30, 2016, and \$2.9 million for the nine months ended September 30, 2016, relates to securities still held at September 30, 2016.

Financial instruments not recorded at fair value include the Notes (Note 6). At September 30, 2016, the carrying amount of the Notes was \$109.6 million, which represents the aggregate principal amount less unamortized debt issuance costs, and the fair value was \$134.0 million. The fair value of long-term restricted cash, the revolving credit facility and the Bridge Loan Facility approximates their carrying value because interest rates are variable and reflective of market rates. The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels. Level 1 inputs consist of quoted prices (unadjusted) in active markets for identical assets and liabilities and have the highest priority. Level 2 and 3 inputs are based on significant other observable inputs and significant unobservable inputs, respectively, and have lower priorities. The Company uses appropriate valuation techniques based on the available inputs to measure the fair values of assets and liabilities.

At September 30, 2016, and December 31, 2015, the fair value of the trading securities acquired in connection with the disposal of the Argentina business unit and the RSU liability was determined using Level 1 inputs. At September 30, 2016, the fair value of the derivative assets was determined using Level 2 inputs. The fair value of the PSU liability was determined using Level 3 inputs.

The Company uses available market data and valuation methodologies to estimate the fair value of debt. The fair value of debt is the estimated amount the Company would have to pay a third party to assume the debt, including a credit spread for the difference between the issue rate and the period end market rate. The credit spread is the Company's default or repayment risk. The credit spread (premium or discount) is determined by comparing the Company's senior notes, revolving credit facility and term loan to new issuances (secured and unsecured) and secondary trades of similar size and credit statistics for both public and private debt. The disclosure in the paragraph above regarding the fair value of the Company's revolving credit facility and term loan was determined using an income approach using Level 3 inputs. The disclosure in the paragraph above regarding the fair value of the Notes was determined using Level 2 inputs based on the indicative pricing published by certain investment banks or trading levels of the Notes, which are not listed on any securities exchange or quoted on an inter-dealer automated quotation system. The disclosure in the paragraph above regarding the fair value of cash and restricted cash was based on Level 1 inputs.

The Company's non-recurring fair value measurements include asset retirement obligations. The fair value of an asset retirement obligation is measured by reference to the expected future cash outflows required to satisfy the retirement obligation discounted at the Company's credit-adjusted risk-free interest rate. The significant level 3 inputs used to calculate such liabilities include estimates of costs to be incurred, the Company's credit-adjusted risk-free interest rate, inflation rates and estimated dates of abandonment. Accretion expense is recognized over time as the discounted liabilities are accreted to their expected settlement value, while the asset retirement cost is amortized over the estimated productive life of the related assets.

Commodity Price Derivatives

The Company utilizes commodity price derivatives to manage the variability in cash flows associated with the forecasted sale of its oil production, reduce commodity price risk and provide a base level of cash flow in order to assure it can execute at least a portion of its capital spending.

At September 30, 2016, the Company had outstanding commodity price derivative positions as follows:

Period and type of instrument	Volume, bopd	Reference	Sold Put	Purchased Put	Sold Call
Collar: June 1, 2016 to May 31, 2017	10,000	ICE Brent	\$ 35	\$ 45	\$ 65

The Company paid a premium of \$4.6 million, or \$1.25 per bbl, upon entering into the commodity price derivative. Collars are a combination of put options (floor) and sold call options (ceiling). For a collar position, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the floor strike price while the Company is required to make payment to the counterparty if the settlement price for any settlement period is above the ceiling strike price. Neither party is required to make a payment to the other party if the settlement price for any settlement period is equal to or greater than the floor strike price and equal to or less than the ceiling strike price.

Foreign Currency Derivatives

The Company utilizes foreign currency derivatives to manage the variability in cash flows associated with the Company's forecasted Colombian peso ("COP") denominated costs.

At September 30, 2016, the Company had outstanding foreign currency derivative positions as follows:

Period and type of instrument	Amount hedged (COP)	Reference	Purchased Call (COP)	Sold Put (COP)	Sold Put (COP)
Collar: June 1, 2016 to June 30, 2016	9,794.6	COP	3,000	3,265	3,310
Collar: July 1, 2016 to September 30, 2016	25,064.6	COP	3,000	3,275	3,320
Collar: October 1, 2016 to December 31, 2016	20,930.0	COP	3,000	3,285	3,330
Collar: January 1, 2017 to March 31, 2017	31,597.6	COP	3,100	3,300	3,345
Collar: April 1, 2017 to May 31, 2017	22,697.2	COP	3,100	3,310	3,370
	<u>110,084.0</u>				

The Company's cash flow is only impacted when the actual settlements under the derivative contracts result in making or receiving a payment to or from the counterparty. These cash settlements represent the cumulative gains and losses on the Company's derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

While the use of these derivative instruments may limit or partially reduce the downside risk of adverse commodity price and foreign exchange movements, their use also may limit future income and gains from favorable commodity price and foreign exchange movements.

12. Supplemental Cash Flow Information

Net changes in assets and liabilities from operating activities were as follows:

(Thousands of U.S. Dollars)	Nine Months Ended September 30,	
	2016	2015
Accounts receivable and other long-term assets	\$ 15,233	\$ 52,133
Derivatives	(4,563)	—
Inventory	3,630	1,599
Prepays	1,864	2,538
Accounts payable and accrued and other long-term liabilities	(11,297)	(36,155)
Taxes receivable and payable	13,230	(47,483)
Net changes in assets and liabilities from operating activities	<u>\$ 18,097</u>	<u>\$ (27,368)</u>

The following table provides additional supplemental cash flow disclosures:

(Thousands of U.S. Dollars)	Nine Months Ended September 30,	
	2016	2015
Non-cash investing activities:		
Net liabilities related to property, plant and equipment, end of period	<u>\$ 27,520</u>	<u>\$ 34,023</u>

13. Subsequent Events

The Company held its 2016 Annual Meeting of Stockholders on June 23, 2016, at which the Company's stockholders approved the reincorporation of the Company from the State of Nevada to the State of Delaware. The reincorporation was effective on October 31, 2016, and the Company is now a Delaware corporation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Please see the cautionary language at the very beginning of this Quarterly Report on Form 10-Q regarding the identification of and risks relating to forward-looking statements, as well as Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and Part I, Item 1A "Risk Factors" in our 2015 Annual Report on Form 10-K.

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 Supplementary Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Items 8 and 7, respectively, of our Annual Report on Form 10-K, filed with the SEC on February 29, 2016.

Highlights

Acquisitions of Petroamerica, PetroLatina and PGC

On January 13, 2016, we acquired all of the issued and outstanding common shares of Petroamerica, a Calgary based oil and gas exploration, development and production company active in Colombia. As consideration we issued approximately 13.7 million shares of Common Stock, and paid cash consideration of approximately \$70.6 million. The fair value of Common Stock issued was determined to be \$25.8 million based on the closing price of shares of our Common Stock on the acquisition date. Total net purchase price of Petroamerica was \$72.2 million, after giving consideration to net working capital of \$24.2 million.

On August 23, 2016, we acquired all of the issued and outstanding common shares of PetroLatina for \$525.0 million, consisting of cash consideration of \$442.6 million, a deferred cash payment of \$25.0 million to be paid prior to December 31, 2016, assumption of a reserve-backed credit facility with an outstanding balance of \$80.0 million, net of working capital of \$15.5 million, and other closing adjustments. Upon completion of the transaction on the PetroLatina Acquisition Date, Gran Tierra repaid and canceled the reserve-based credit facility and PetroLatina became an indirect wholly-owned subsidiary of Gran Tierra. PetroLatina is an exploration and production company with assets primarily in the Middle Magdalena Basin of Colombia. The PetroLatina Acquisition was funded through a combination of our current cash balance, gross proceeds of