

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,	
	2019	2018	2019	2018
OIL AND NATURAL GAS SALES (Note 6)	\$ 132,491	\$ 175,118	\$ 443,049	\$ 476,792
EXPENSES				
Operating	35,603	29,511	104,119	78,019
Workover	10,979	13,106	30,025	25,922
Transportation	3,179	7,505	16,167	21,024
Depletion, depreciation and accretion	49,812	51,630	164,430	137,698
General and administrative	7,637	13,811	25,874	37,173
Severance	140	1,004	1,082	2,015
Foreign exchange loss (gain)	6,840	(888)	5,581	386
Financial instruments loss (gain) (Note 9)	12,285	(4,874)	(2,890)	6,840
Loss on redemption of Convertible Notes (Note 4)	11,305	—	11,305	—
Interest expense (Note 4)	12,153	7,404	30,655	20,274
	<u>149,933</u>	<u>118,209</u>	<u>386,348</u>	<u>329,351</u>
INTEREST INCOME	<u>130</u>	<u>725</u>	<u>660</u>	<u>2,121</u>
(LOSS) INCOME BEFORE INCOME TAXES	<u>(17,312)</u>	<u>57,634</u>	<u>57,361</u>	<u>149,562</u>
INCOME TAX EXPENSE (RECOVERY)				
Current (Note 7)	3,049	19,108	13,923	36,224
Deferred (Note 7)	8,472	(36,769)	31,752	(118)
	<u>11,521</u>	<u>(17,661)</u>	<u>45,675</u>	<u>36,106</u>
NET AND COMPREHENSIVE (LOSS) INCOME	<u>\$ (28,833)</u>	<u>\$ 75,295</u>	<u>\$ 11,686</u>	<u>\$ 113,456</u>
NET (LOSS) INCOME PER SHARE				
- BASIC	\$ (0.08)	\$ 0.19	\$ 0.03	\$ 0.29
- DILUTED	\$ (0.08)	\$ 0.18	\$ 0.03	\$ 0.28
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC (Note 5)	372,195,176	391,209,589	379,701,405	391,185,636
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED (Note 5)	372,195,176	427,947,959	379,701,664	427,416,964

(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)

	As at September 30, 2019	As at December 31, 2018
ASSETS		
Current Assets		
Cash and cash equivalents (Note 10)	\$ 13,959	\$ 51,040
Restricted cash and cash equivalents (Note 10)	676	1,269
Accounts receivable	27,334	26,177
Investment (Note 9)	41,979	32,724
Taxes receivable	100,205	78,259
Other assets	16,824	13,056
Total Current Assets	200,977	202,525
Oil and Gas Properties		
Proved	1,063,386	853,428
Unproved	504,779	456,598
Total Oil and Gas Properties	1,568,165	1,310,026
Other capital assets	5,139	2,751
Total Property, Plant and Equipment	1,573,304	1,312,777
Other Long-Term Assets		
Deferred tax assets	44,886	45,437
Investment (Note 9)	4,868	8,711
Taxes receivable	29,036	—
Other	4,209	4,553
Goodwill	102,581	102,581
Total Other Long-Term Assets	185,580	161,282
Total Assets	\$ 1,959,861	\$ 1,676,584
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 201,569	\$ 154,670
Derivatives (Note 9)	747	1,017
Taxes payable	—	4,149
Equity compensation award liability (Note 5 and 9)	3,661	9,544
Total Current Liabilities	205,977	169,380
Long-Term Liabilities		
Long-term debt (Notes 4 and 9)	637,601	399,415
Deferred tax liabilities	53,930	23,419
Asset retirement obligation	48,411	43,676
Equity compensation award liability (Note 5 and 9)	4,544	8,139
Other	4,346	2,805
Total Long-Term Liabilities	748,832	477,454
Contingencies (Note 8)		
Shareholders' Equity		
Common Stock (Note 5) (366,981,556 and 387,079,027 shares issued and outstanding of Common Stock, par value \$0.001 per share, as at September 30, 2019, and December 31, 2018, respectively)	10,270	10,290
Additional paid in capital	1,282,074	1,318,048
Deficit	(287,292)	(298,588)
Total Shareholders' Equity	1,005,052	1,029,750
Total Liabilities and Shareholders' Equity	\$ 1,959,861	\$ 1,676,584

(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,	
	2019	2018
Operating Activities		
Net income	\$ 11,686	\$ 113,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and accretion	164,430	137,698
Deferred tax expense (recovery)	31,752	(118)
Stock-based compensation (Note 5)	1,092	20,477
Amortization of debt issuance costs (Note 4)	2,574	2,329
Unrealized foreign exchange loss	5,303	159
Financial instruments (gain) loss (Note 9)	(2,890)	6,840
Cash settlement of financial instruments	(2,275)	(26,169)
Loss on redemption of Convertible Notes (Note 4)	11,305	—
Cash settlement of asset retirement obligation	(707)	(456)
Non-cash lease expenses	1,366	—
Lease payments	(1,603)	—
Cash settlement of restricted share units	—	(360)
Net change in assets and liabilities from operating activities (Note 10)	(83,606)	(40,652)
Net cash provided by operating activities	138,427	213,204
Investing Activities		
Additions to property, plant and equipment	(310,579)	(258,551)
Property acquisitions, net of cash acquired (Note 3)	(77,772)	(20,100)
Changes in non-cash investing working capital	20,138	32,638
Net cash used in investing activities	(368,213)	(246,013)
Financing Activities		
Proceeds from bank debt, net of issuance costs	246,000	4,988
Repayment of debt	(304,000)	(153,000)
Repurchase of shares of Common Stock (Note 5)	(37,560)	(1,314)
Proceeds from exercise of stock options	—	1,408
Proceeds from issuance of Senior Notes, net of issuance costs	289,298	288,087
Net cash provided by financing activities	193,738	140,169
Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents	(1,506)	(402)
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(37,554)	106,958
Cash, cash equivalents and restricted cash and cash equivalents, beginning of period (Note 10)	54,308	26,678
Cash, cash equivalents and restricted cash and cash equivalents, end of period (Note 10)	\$ 16,754	\$ 133,636
Supplemental cash flow disclosures (Note 10)		

(See notes to the condensed consolidated financial statements)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Share Capital				
Balance, beginning of period	\$ 10,285	\$ 10,295	\$ 10,290	\$ 10,295
Issuance of Common Stock	—	1	—	1
Repurchase and cancellation of Common Stock (Note 5)	(15)	(1)	(20)	(1)
Balance, end of period	10,270	10,295	10,270	10,295
Additional Paid in Capital				
Balance, beginning of period	1,295,106	1,328,037	1,318,048	1,327,244
Exercise of stock options	—	562	—	1,407
Stock-based compensation (Note 5)	563	489	1,566	1,645
Repurchase and cancellation of Common Stock (Note 5)	(13,595)	(105)	(37,540)	(1,313)
Balance, end of period	1,282,074	1,328,983	1,282,074	1,328,983
Deficit				
Balance, beginning of period	(258,459)	(363,043)	(298,588)	(401,204)
Net (loss) income	(28,833)	75,295	11,686	113,456
Cumulative adjustment for accounting change related to leases (Note 2)	—	—	(390)	—
Balance, end of period	(287,292)	(287,748)	(287,292)	(287,748)
Total Shareholders' Equity	\$ 1,005,052	\$ 1,051,530	\$ 1,005,052	\$ 1,051,530

(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 and Ecuador.

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, 2018, included in the Company’s 2018 Annual Report on Form 10-K.

The Company’s significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company’s 2018 Annual Report on Form 10-K and are the same policies followed in these interim unaudited condensed consolidated financial statements, except as noted below. The Company has evaluated all subsequent events through to the date these interim unaudited condensed consolidated financial statements were issued.

Recently Adopted Accounting Pronouncements

Leases

The Company adopted Accounting Standard Codification (“ASC”) 842 Leases with a date of initial application on January 1, 2019 in accordance with the modified retrospective transition approach using the practical expedients available for land easements and short-term leases. The Company did not elect the “suite” of practical expedients or use the hindsight expedient in its adoption.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgment to determine the lease term for contracts which include renewal or termination options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

All leases identified as part of the transition relate to office leases.

The transition resulted in the recognition of a right-of-use asset presented in other capital assets of \$3.8 million at January 1, 2019, the recognition of lease liabilities of \$4.2 million and a \$0.4 million impact on retained earnings. When measuring the lease liabilities, the Company’s incremental borrowing rate was used. At January 1, 2019 the rates applied ranged between 5.6% and 9.1%.

3. Property, Plant and Equipment

On February 20, 2019, the Company acquired 36.2% working interest ("WI") in the Surorient Block and a 100% WI of the Llanos-5 Block for cash consideration of \$79.1 million and a promissory note of \$1.5 million included in current accounts payable on the Company's condensed consolidated balance sheet. The cost of the assets was allocated to proved properties using relative fair values. The entire consideration of \$0.3 million for Llanos-5 was allocated to unproved properties.

(Thousands of U.S. Dollars)

Cost of asset acquisition:

Cash	\$	79,100
Promissory note		1,500
	\$	<u>80,600</u>

Allocation of Consideration Paid:

Oil and gas properties		
Proved	\$	52,960
Unproved		45,132
		<u>98,092</u>
Net working capital (including cash acquired of \$5.3 million)		(17,492)
	\$	<u>80,600</u>

4. Debt and Debt Issuance Costs

The Company's debt at September 30, 2019 and December 31, 2018 was as follows:

(Thousands of U.S. Dollars)	As at September 30, 2019	As at December 31, 2018
6.25% Senior Notes	\$ 300,000	\$ 300,000
7.75% Senior Notes	300,000	—
Convertible notes	—	115,000
Revolving credit facility	57,000	—
Unamortized debt issuance costs	(21,454)	(15,585)
Long-term debt	635,546	399,415
Long-term lease obligation ⁽¹⁾	2,055	—
	<u>\$ 637,601</u>	<u>\$ 399,415</u>

⁽¹⁾ The current portion of the lease obligation has been included in accounts payable and accrued liabilities on the Company's balance sheet and totaled \$1.8 million as at September 30, 2019 (December 31, 2018 - nil).

Senior Notes

On May 20, 2019, the Company, issued \$300.0 million of 7.75% Senior Notes due 2027 (the "7.75% Senior Notes"). The 7.75% Senior Notes are fully and unconditionally guaranteed by certain subsidiaries of the Company that guarantee its revolving credit facility. Net proceeds from the issue of the 7.75% Senior Notes were \$289.1 million, after deducting the initial purchasers' discounts and commission and the offering expenses payable by the Company.

The 7.75% Senior Notes bear interest at a rate of 7.75% per year, payable semi-annually in arrears on May 23 and November 23 of each year, beginning on November 23, 2019. The Senior Notes will mature on May 23, 2027, unless earlier redeemed or repurchased.

Before May 23, 2023, the Company may, at its option, redeem all or a portion of the 7.75% Senior Notes at 100% of the principal amount plus accrued and unpaid interest and a "make-whole" premium. Thereafter, the Company may redeem all or a portion of

the 7.75% Senior Notes plus accrued and unpaid interest applicable to the date of the redemption at the following redemption prices: 2023 - 103.875%; 2024 - 101.938%; 2025 and thereafter - 100%.

Convertible Notes

During the quarter, the Company purchased and canceled \$114,999,000 aggregate principal amount of Convertible Notes, including 114,997,000 aggregate principal amount purchased and canceled pursuant to a previously announced offer to purchase for cash all outstanding Convertible Notes, at a purchase price of \$1,075 in cash per \$1,000 principal amount of Convertible Notes plus \$1.6 million of accrued and unpaid interest outstanding on such Convertible Notes up to, but not excluding the date of purchase. The Company recorded \$11.3 million loss on redemption including premium paid, transaction costs and \$2.3 million of deferred financing fees write-off.

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,	
	2019	2018	2019	2018
Contractual interest and other financing expenses	\$ 11,364	\$ 6,588	\$ 28,081	\$ 17,945
Amortization of debt issuance costs	789	816	2,574	2,329
	<u>\$ 12,153</u>	<u>\$ 7,404</u>	<u>\$ 30,655</u>	<u>\$ 20,274</u>

5. Share Capital

	Shares of Common Stock
Balance, December 31, 2018	387,079,027
Shares repurchased and canceled	(20,097,471)
Balance, September 30, 2019	<u>366,981,556</u>

In Q1 2019, the Company implemented a share repurchase program (the “2019 Program”) through the facilities of the Toronto Stock Exchange (“TSX”) and eligible alternative trading platforms in Canada. Under the 2019 Program, the Company is able to purchase at prevailing market prices up to 19,353,951 shares of Common Stock, representing approximately 5.00% of the issued and outstanding shares of Common Stock as of March 1, 2019. The 2019 Program had an expiry date of March 12, 2020, or earlier if the 5.00% share maximum was reached. The 2019 Program expired when the 5.00% share maximum was reached in September 2019.

During the three and nine months ended September 30, 2019, the Company repurchased 9,654,751 and 20,097,471 shares at a weighted average prices of \$1.41 and \$1.87, respectively. Of the shares repurchased, 743,520 shares at a weighted average price of \$2.34 were repurchased under 2018 share repurchase program with similar terms to that of the 2019 Program.

Equity Compensation Awards

The following table provides information about performance stock units (“PSUs”), deferred share units (“DSUs”), and stock option activity for the nine months ended September 30, 2019:

	PSUs	DSUs	Stock Options	Weighted Average Exercise Price/ Stock Option (\$)
	Number of Outstanding Share Units	Number of Outstanding Share Units	Number of Outstanding Stock Options	
Balance, December 31, 2018	9,004,661	684,893	9,034,412	3.18
Granted	5,179,906	352,810	2,391,253	2.26
Exercised	(2,725,877)	—	—	—
Forfeited	(574,010)	—	(943,846)	3.94
Expired	—	—	(129,730)	5.41
Balance, September 30, 2019	10,884,680	1,037,703	10,352,089	2.87

For the three and nine months ended September 30, 2019, stock-based compensation expense was nil and \$1.1 million, respectively (three and nine months ended September 30, 2018 - \$10.3 million and \$20.5 million, respectively).

At September 30, 2019, there was \$8.8 million (December 31, 2018 - \$9.2 million) of unrecognized compensation cost related to unvested PSUs and stock options which is expected to be recognized over a weighted average period of 1.8 years. During the nine months ended September 30, 2019, the Company paid out \$10.2 million (nine months ended September 30, 2018 - nil) for PSUs which were vested December 31, 2018.

Net Income per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of Common Stock and exchangeable shares issued and outstanding during each period. Diluted net income per share is similarly calculated except that the common shares outstanding for the period is increased using the treasury stock method to reflect the potential dilution that could occur if outstanding stock awards were vested at the end of the applicable period plus potentially issuable shares on conversion of the convertible notes. Anti-dilutive shares represent potentially dilutive securities that are excluded from the computation of diluted income or loss per share as their impact would be anti-dilutive.

Weighted Average Shares Outstanding

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Weighted average number of common and exchangeable shares outstanding	372,195,176	391,209,589	379,701,405	391,185,636
Shares issuable pursuant to stock options	—	6,509,385	14,315	4,295,964
Shares assumed to be purchased from proceeds of stock options	—	(5,585,408)	(14,056)	(3,879,029)
Shares issuable pursuant to convertible notes	—	35,814,393	—	35,814,393
Weighted average number of diluted common and exchangeable shares outstanding	372,195,176	427,947,959	379,701,664	427,416,964
Common shares outstanding, as at period end	366,981,556	391,339,489	366,981,556	391,339,489

For the three and nine months ended September 30, 2019, 10,316,496 and 10,247,016 options, respectively (three and nine months ended September 30, 2018 - 3,198,865 and 5,436,667, respectively), on a weighted average basis, were excluded from the diluted income per share calculation as the options were anti-dilutive.

6. Revenue

The Company's revenues are generated from oil sales at prices which reflect the blended prices received upon shipment by the purchaser at defined sales points or are defined by contract relative to ICE Brent and adjusted for Vasconia or Castilla crude differentials, quality, and transportation discounts each month. For the three and nine months ended September 30, 2019, 100%

(three and nine months ended September 30, 2018 - 100%) of the Company's revenue resulted from oil sales. During the three and nine months ended September 30, 2019, quality and transportation discounts were 16% and 15%, respectively, of the average ICE Brent price (three and nine months ended September 30, 2018 - 13% and 14%, respectively). During the three and nine months ended September 30, 2019, the Company's production was sold primarily to three major customers in Colombia (three and nine months ended September 30, 2018 - two).

As at September 30, 2019, accounts receivable included \$0.1 million of accrued sales revenue related to September 2019 production (December 31, 2018 - \$4.2 million related to December 31, 2018 production).

7. Taxes

The Company's effective tax rate was 79% for the nine months ended September 30, 2019, compared to 24% in the comparative period of 2018. Current income tax expense was lower in the nine months ended September 30, 2019, compared with the corresponding period of 2018, primarily as a result of lower income and higher tax depreciation in Colombia. The deferred income tax expense of \$31.8 million was higher in the nine months ended September 30, 2019, compared to the corresponding period of 2018 primarily due to the impact of the release of a portion of the valuation allowance in Colombia during 2018 and excess tax depreciation compared with accounting depreciation in Colombia during 2019.

For the nine months ended September 30, 2019, the difference between the effective tax rate of 79% and the 33% Colombian tax rate was primarily due to foreign currency translation adjustments, an increase in the valuation allowance and the impact of foreign tax rates.

For the comparative period of 2018, the 24% effective tax rate differed from the Colombian tax rate of 37% primarily due to a decrease in the valuation allowance and other permanent differences, which was partially offset by the impact of foreign tax rates.

On October 16, 2019, the Colombian Constitutional Court overturned the 2018 tax reform effective January 1, 2020. If a new tax reform law is not approved by the Congress of Colombia by December 31, 2019, the tax regime in force before the 2018 tax reform will apply beginning January 1, 2020. On October 23, 2019, the Congress of Colombia filed a tax bill proposing the same amendments that were approved by the Congress of Colombia in 2018 and which would become effective on January 1, 2020. Based on the Company's review and analysis of the impact of the court decision and the bill proposed by the Congress of Colombia, the Company believes that both should not have a material effect on its financial statements.

8. Contingencies

Legal Proceedings

The Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) ("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 an additional royalty (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 \$56.2 million as at September 30, 2019 (December 31, 2018 - \$56.3 million). At this time no amount has been accrued as Gran Tierra does not consider it probable that a loss will be incurred.

In addition to the above, the Company has a number of other lawsuits and claims pending. Although the outcome of these other lawsuits and disputes cannot be predicted with certainty, the Company 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 associated with these lawsuits and claims as they are incurred or become probable and determinable.

Letters of credit and other credit support

At September 30, 2019, the Company had provided letters of credit and other credit support totaling \$123.9 million (December 31, 2018 - \$76.7 million) as security relating to work commitment guarantees in Colombia and Ecuador contained in exploration contracts and other capital or operating requirements.

9. Financial Instruments and Fair Value Measurement

Financial Instruments

At September 30, 2019, the Company's financial instruments recognized on the balance sheet consisted of: cash and cash equivalents; restricted cash and cash equivalents; accounts receivable; investment; accounts payable and accrued liabilities, derivatives, long-term debt, equity compensation award liability and other long-term liabilities.

Fair Value Measurement

The fair value of investment, derivatives and PSU liability is remeasured at the estimated fair value at the end of each reporting period.

The fair value of the short-term portion of the Company's investment in PetroTal Corp. ("PetroTal"), which was received on the sale of the Company's Peru business unit, was estimated using quoted prices at September 30, 2019, and the foreign exchange rate at that date. PetroTal is a publicly-traded energy company incorporated and domiciled in Canada engaged in exploration, appraisal and development of crude oil and natural gas in Peru, South America. PetroTal's shares are listed on the Toronto Stock Exchange Venture under the trading symbol 'TAL' and on the London Stock Exchange under the trading symbol 'PTAL'. Gran Tierra through a subsidiary holds approximately 246 million common shares representing approximately 37% of PetroTal's issued and outstanding common shares. Gran Tierra has the right to nominate two directors to the board of PetroTal. The fair value of the long-term portion of the investment restricted by escrow conditions was estimated using observable and unobservable inputs; factors that were evaluated included quoted market prices, precedent comparable transactions, risk free rate, measures of market risk volatility, estimates of the Company's and PetroTal's cost of capital and quotes from third parties.

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 PSU liability was estimated based on option pricing model using inputs such as quoted market prices in an active market, and PSU performance factor.

The fair value of investment, derivatives and equity compensation award liability (PSU and DSU) at September 30, 2019, and December 31, 2018, was as follows:

(Thousands of U.S. Dollars)	As at September 30, 2019	As at December 31, 2018
Investment - current and long-term	\$ 46,847	\$ 41,435
Derivative asset ¹	1,807	—
	<u>48,654</u>	<u>41,435</u>
Derivative liability	\$ 747	\$ 1,017
PSU and DSU liability	8,205	17,683
	<u>\$ 8,952</u>	<u>\$ 18,700</u>

¹Included in other current assets on the Company's balance sheet

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,	
	2019	2018	2019	2018
Commodity price derivative loss (gain)	\$ (24)	\$ 929	\$ 464	\$ 20,384
Foreign currency derivatives loss (gain)	337	525	392	(1,499)
Investment loss (gain)	11,972	(6,328)	(3,746)	(12,045)
Financial instruments loss (gain)	\$ 12,285	\$ (4,874)	\$ (2,890)	\$ 6,840

Investment loss (gain) for the three and nine months ended September 30, 2019, was related to the fair value loss (gain) on the PetroTal shares Gran Tierra received in connection with the sale of its Peru business unit in December 2017. For the three and nine months ended September 30, 2019 and 2018, this investment loss (gain) was unrealized.

Financial instruments not recorded at fair value include the Company's 6.25% Senior Notes due 2025 (the "6.25% Senior Notes") and 7.75% Senior Notes due 2027. At September 30, 2019, the carrying amounts of the 6.25% Senior Notes and the 7.75% Senior Notes were \$290.3 million and \$289.6 million, respectively, which represented the aggregate principal amount less unamortized debt issuance costs, and the fair values were \$268.6 million and \$285.0 million, respectively. The fair value of long-term restricted cash and cash equivalents and the revolving credit facility approximated 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, 2019, the fair value of the current portion of the investment and DSU liability was determined using Level 1 inputs, the fair value of derivatives and PSUs was determined using Level 2 inputs and the fair value of the long-term portion of the investment restricted by escrow conditions was determined using Level 3 inputs. The table below presents the fair value of the long-term portion of the investment:

(Thousands of U.S. Dollars)	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
Opening balance, investment - long-term	\$	8,711	\$	19,147
Transfer from long-term (Level 3) to current (Level 1)		(4,352)		(10,522)
Unrealized valuation gain		148		846
Unrealized foreign exchange gain (loss)		361		(760)
Closing balance, investment - long-term	\$	4,868	\$	8,711

With all other variables held constant, a \$0.01 change in the CAD price of PetroTal shares would result in a \$1.8 million change in the total investment in PetroTal as at September 30, 2019.

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 and revolving credit facility 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 cash and restricted cash and cash equivalents, revolving credit facility and Senior Notes 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, 2019, the Company had outstanding commodity price derivative positions as follows:

Period and type of instrument	Volume, bopd	Reference	Purchased Put (\$/bbl, Weighted Average)	Sold Call (\$/ bbl, Weighted Average)	Premium (\$/ bbl, Weighted Average)
Purchased Puts: October 1, to December 31, 2019	5,000	ICE Brent	60.00	n/a	2.39
Collars: October 1, to December 31, 2019	5,000	ICE Brent	60.00	71.53	n/a

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 expenses. At September 30, 2019, the Company had outstanding foreign currency derivative positions as follows:

Period and type of instrument	Amount Hedged (Millions COP)	U.S. Dollar Equivalent of Amount Hedged (Thousands of U.S. Dollars) ⁽¹⁾	Reference	Floor Price (COP, Weighted Average)	Cap Price (COP, Weighted Average)
Collars: October 1, to December 31, 2019	67,500	19,497	COP	3,019	3,446

⁽¹⁾ At September 30, 2019 foreign exchange rate.

10. Supplemental Cash Flow Information

The following table provides a reconciliation of cash, cash equivalents and restricted cash and cash equivalents with the Company's interim unaudited condensed consolidated balance sheet that sum to the total of the same such amounts shown in the interim unaudited condensed consolidated statements of cash flows:

(Thousands of U.S. Dollars)	As at September 30,		As at December 31,	
	2019	2018	2018	2017
Cash and cash equivalents	\$ 13,959	\$ 130,158	\$ 51,040	\$ 12,326
Restricted cash and cash equivalents - current	676	1,228	1,269	11,787
Restricted cash and cash equivalents - long-term (included in other long-term assets)	2,119	2,250	1,999	2,565
	<u>\$ 16,754</u>	<u>\$ 133,636</u>	<u>\$ 54,308</u>	<u>\$ 26,678</u>

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

(Thousands of U.S. Dollars)	Nine Months Ended September 30,	
	2019	2018
Accounts receivable and other long-term assets	\$ 3,476	\$ (35,934)
Derivatives	(658)	21,645
Inventory	(3,403)	(3,375)
Prepays	353	489
Accounts payable and accrued and other long-term liabilities	(21,687)	5,380
Taxes receivable and payable	(61,687)	(28,857)
Net changes in assets and liabilities from operating activities	<u>\$ (83,606)</u>	<u>\$ (40,652)</u>

The following table provides additional supplemental cash flow disclosures:

(Thousands of U.S. Dollars)	Nine Months Ended September 30,	
	2019	2018
Cash paid for income taxes	\$ 38,022	\$ 38,202
Cash paid for interest	\$ 25,850	\$ 14,137
Non-cash investing activities:		
Net liabilities related to property, plant and equipment, end of period	\$ 105,342	\$ 100,790