

GRAN TIERRA ENERGY, INC.  
Form 10QSB/A  
January 17, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB/A  
(Amendment No. 2)**

(Mark One)

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

For the quarterly period ended September 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 333-111656

**GRAN TIERRA ENERGY, INC.**  
(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

Applied For  
(IRS Employer  
Identification No.)

300, 611 10<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2R 0B2  
(Address of principal executive offices)

(403) 265-3221  
(Issuer's telephone number)

Check whether the small business issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the small business issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of September 30, 2006, the latest practicable date, 95,455,759 of the issuer's common shares, \$.001 par value, were issued and outstanding.

Transitional Small Business Disclosure Format (Check one):

Yes  No

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**Explanatory Note**

Gran Tierra Energy Inc. (the "Company") is filing this Amendment No. 2 to the Quarterly Report on Form 10-QSB/A for the quarterly period ended September 30, 2006 (the "Original Filing"), which was originally filed with the Securities and Exchange Commission (the "SEC") on November 17, 2006. Amendment No. 1 to the Quarterly Report on Form 10-QSB/A was filed on December 6, 2006. The purpose of this filing is to include revised Note 3 to the Notes to the Condensed Consolidated Financial Statements for the Nine Month Period Ended September 30, 2006 with the complete text of the Company's financial statements.

In Note 3, the Company disclosed that pro forma results, giving effect to the acquisition of Argosy Energy Corp., for the year ended December 31, 2005 and the period ended September 30, 2006 were:

|                              | 2006       | 2005       |
|------------------------------|------------|------------|
| Revenue                      | 15,677,337 | 12,950,000 |
| Net Income (loss)            | 3,156,372  | (459,000)  |
| Earnings per share (Basic)   | 0.03       | (0.01)     |
| Earnings per share (Diluted) | 0.03       | (0.01)     |

Actual pro forma results, giving effect to the acquisition of Argosy Energy Corp., for the year ended December 31, 2005 and the period ended September 30, 2006 were:

|                              | 2006       | 2005       |
|------------------------------|------------|------------|
| Revenue                      | 15,780,000 | 12,950,000 |
| Net Income (loss)            | 865,000    | 1,569,000  |
| Earnings per share (Basic)   | 0.01       | 0.04       |
| Earnings per share (Diluted) | 0.01       | 0.03       |

The calculation error in the Company's initial filing of the Form 10-QSB was discovered in connection with the audit of its financial statements for the period ended September 30, 2006. No other revisions have been made to the Company's financial statements or any other disclosure contained in the Original Filing.

In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

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**Gran Tierra Energy Inc.**  
**Condensed Consolidated Statement of Operations (Unaudited)**  
**Stated in US dollars**

|  | <b>Three months ended<br/>September 30,</b> |            | <b>Nine months ended<br/>September 30, 2006 and the<br/>period from January 26 to<br/>September 30, 2005</b> |            |
|--|---|------------|--|------------|
|  | 2006<br>\$                                  | 2005<br>\$ | 2006<br>\$   | 2005<br>\$ |
| <b>Revenue</b>                                 |   |            |  |            |
| Oil and Natural Gas Sales                      | 5,219,308                                   | 349,263    | 8,358,921  | 349,263    |
| Interest Revenue                               | 175,641                                     | —          | 195,816  | —          |
|  | 5,394,949                                   | 349,263    | 8,554,737  | 349,263    |
| <b>EXPENSES</b>                                |   |            |  |            |
| Operating Expenses                             | 1,259,888                                   | 125,000    | 2,702,507  | 125,000    |
| General and Administrative                     | 1,764,856                                   | 414,397    | 4,256,303  | 668,908    |
| Interest Expenses                              | 2,765                                       | —          | 3,075  | —          |
| Depreciation, Depletion and<br>Accretion       | 1,449,694                                   | 111,843    | 2,324,158  | 115,209    |
| Foreign Exchange (gain)/loss                   | 273,684                                     | (24,703)   | 277,526  | (21,064)   |
|  | 4,750,887                                   | 626,537    | 9,563,569  | 888,053    |
| <b>INCOME/(LOSS) BEFORE<br/>INCOME TAXES</b>   |   |            |  |            |
|  | 644,062                                     | (277,274)  | (1,008,832)  | (538,790)  |
| Income Taxes (Note 8)                          | 710,417                                     | 7,370      | 848,200  | 7,370      |
| <b>NET INCOME/(LOSS)</b>                       |   |            |  |            |
|  | (66,355)                                    | (284,644)  | (1,857,032)  | (546,160)  |
| <b>NET EARNINGS/(LOSS) PER<br/>SHARE</b>       |   |            |  |            |
| Basic  | 0.00  | (0.02)     | (0.03)   | (0.11)     |
| Diluted  | 0.00  | (0.02)     | (0.03)   | (0.11)     |
| Weighted average number of<br>shares - Basic   | 95,455,759                                  | 12,083,333 | 63,043,998   | 4,903,297  |
| Weighted average number of<br>shares - Diluted | 130,612,674                                 | 12,083,333 | 98,200,913   | 4,903,297  |

*See accompanying Notes to the Financial Statements*

**Gran Tierra Energy Inc.**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
**Stated in US dollars**

|   | <b>September 30,<br/>2006<br/>\$</b> | <b>December 31,<br/>2005<br/>\$</b> |
|---|--------------------------------------|-------------------------------------|
| <b>ASSETS</b>                                 |                                      |                                     |
| <b>CURRENT</b>                                |                                      |                                     |
| Cash and cash equivalents                     | 18,796,084                           | 2,221,456                           |
| Restricted cash                               | 12,617,263                           | 400,427                             |
| Accounts receivable                           | 7,137,920                            | 808,960                             |
| Inventory                                     | 586,943                              | 447,012                             |
| Prepaid expenses                              | 247,073                              | 42,701                              |
| Total Current Assets                          | 39,385,283                           | 3,920,556                           |
| Taxes Receivable                              | 165,919                              | 108,139                             |
| Property Plant and Equipment (Note 5)         |                                      |                                     |
| Proven oil and gas properties, net            | 25,859,978                           | 7,886,914                           |
| Unproven oil and gas properties not amortized | 18,292,211                           | -                                   |
| Other, net                                    | 499,146                              | 426,294                             |
| Goodwill                                      | 15,005,083                           | -                                   |
| Deferred Income Taxes                         | -                                    | 29,228                              |
|   | 99,207,620                           | 12,371,131                          |
| <b>LIABILITIES</b>                            |                                      |                                     |
| <b>CURRENT</b>                                |                                      |                                     |
| Accounts payable                              | 6,486,464                            | 1,142,930                           |
| Accrued liabilities                           | 1,367,368                            | 121,122                             |
| Taxes Payable                                 | 1,708,955                            | -                                   |
|   | 9,562,787                            | 1,264,052                           |
| Long term Payables                            | 76,147                               | -                                   |
| Asset Retirement Obligation (Note 7)          | 121,655                              | 67,732                              |
| Deferred Income Taxes (Note 8)                | 7,849,421                            | -                                   |
| Deferred Remittance Taxes                     | 1,385,849                            | -                                   |
| Total Liabilities                             | 18,995,859                           | 1,331,784                           |
| <b>SHAREHOLDERS' EQUITY</b>                   |                                      |                                     |
| Share capital (Note 6)                        | 95,455                               | 43,285                              |
| Additional Paid in Capital                    | 71,361,463                           | 11,807,313                          |
| Warrants (Note 6)                             | 12,831,553                           | 1,408,429                           |
| Deficit                                       | (4,076,711)                          | (2,219,680)                         |
|   | 80,211,760                           | 11,039,347                          |
|   | 99,207,620                           | 12,371,131                          |

*See accompanying Notes to the Financial Statements*

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**Gran Tierra Energy Inc.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**Stated in US dollars**

|  | <b>Nine Months ended<br/>September 30,</b> | <b>For the Period from<br/>January 26, 2005 to<br/>September 30, 2005</b> |
|--|--|---|
|  | <b>2006</b>                                |   |
|  | <b>\$</b>                                  | <b>\$</b>   |
| <b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>                       |  |   |
| <b>OPERATING:</b>  |  |   |
| Net (loss) earnings  | (1,857,032)                                | (546,160)   |
| Adjustments for:   |  |   |
| Depreciation, Depletion and Accretion  | 2,324,158                                  | 115,209   |
| Stock-based compensation   | 203,306                                    | -   |
| Deferred Income Taxes  | 123,193                                    | -   |
| Asset Retirement Obligation, settled   | (9,218)                                    | -   |
| Taxes Receivable   | (57,780)                                   | -   |
| Changes in non-cash working capital (Note 9)                                 | 1,497,304                                  | (192,732)   |
|  | 2,223,931                                  | (623,683)   |
| <b>FINANCING</b>   |  |   |
| Short term loan  | -  | 6,655,223   |
| Proceeds from issuance of common shares and warrants, net of issuance costs  | 70,826,137                                 | 1,713,412   |
|  | 70,826,137                                 | 8,368,635   |
| <b>INVESTING</b>   |  |   |
| Property and equipment additions, net of asset retirement obligation assumed | (6,011,735)                                | (6,934,542)   |
| Other  | (28,940)                                   | -   |
| Business Combination, net of cash acquired (Note 3)                          | (38,217,930)                               | -   |
| Restricted Cash  | (12,216,835)                               | (377,491)   |
|  | (56,475,440)                               | (7,312,033)   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                             | <b>16,574,628</b>                          | <b>432,919</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                        | <b>2,221,456</b>                           | <b>-</b>  |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                              | <b>18,796,084</b>                          | <b>432,919</b>  |

*See accompanying Notes to the Financial Statements*





**GRAN TIERRA ENERGY INC.****Condensed Consolidated Statement of Shareholders' Equity (unaudited)**

Stated in US dollars

|                                   | September 30, 2006 | December 31, 2005 |
|-----------------------------------|--------------------|-------------------|
|                                   | \$                 | \$                |
| <b>Share Capital</b>              |                    |                   |
| Balance beginning of period       | 43,285             | -                 |
| Issue of common shares            | 52,170             | 43,285            |
| Balance end of period             | 95,455             | 43,285            |
| <b>Additional paid-in-capital</b> |                    |                   |
| Balance beginning of period       | 11,807,313         | -                 |
| Issue of common shares            | 59,350,844         | 11,754,402        |
| Stock-based compensation expense  | 203,306            | 52,911            |
| Balance end of period             | 71,361,463         | 11,807,313        |
| <b>Warrants</b>                   |                    |                   |
| Balance beginning of period       | 1,408,429          | -                 |
| Issue of warrants                 | 11,476,118         | 1,408,429         |
| Redemption of warrants            | (52,994)           | -                 |
| Balance end of period             | 12,831,553         | 1,408,429         |
| <b>Deficit</b>                    |                    |                   |
| Balance beginning of period       | (2,219,680)        | -                 |
| Net loss                          | (1,857,032)        | (2,219,680)       |
| Balance end of period             | (4,076,712)        | (2,219,680)       |

(See notes to the consolidated financial statements)

## 1. DESCRIPTION OF BUSINESS AND GOING CONCERN

Gran Tierra Energy Inc. (the “Company”) is a publicly traded oil and gas exploration and production company with operations in Argentina and Colombia.

The Company’s ability to continue as a going concern is dependent upon obtaining the necessary financing to acquire oil and natural gas interests and generating profitable operations from its oil and natural gas interests in the future. The Company’s financial statements as at and for the nine month period ended September 30, 2006 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of \$1,857,032 for the period ended September 30, 2006, and, as at September 30, 2006, had a deficit of \$4,076,711. The Company expects to incur substantial expenditures to further its capital investment programs and the Company’s cash and cash flow from operating activities may not be sufficient to satisfy its current obligations and meet its capital investment programs.

To address the above, management of the Company completed a sale and issuance of common shares during the second quarter of 2006. A total of \$75,000,000 was raised through the sale of 50,000,000 units. Issue costs totalled \$6,000,077, for net proceeds of \$68,999,923. A portion of these proceeds was used to acquire producing and exploration assets in Colombia which add immediate cash flow, and provide exploration opportunities.

In addition, management of the Company is pursuing the following:

- raise additional capital through issuance of debt. The Company is currently negotiating a debt facility that would provide capital for future expansion activities.
- build a portfolio of production, development, and exploration opportunities using additional capital raised and cash provided by future operating activities.

Should the going concern assumption not be appropriate and the Company not be able to realize its assets and settle its liabilities and commitments in the normal course of operations, these consolidated financial statements would require adjustments to the amounts and classifications of assets and liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim consolidated financial statements, and revenues and expenses during the reporting period. The company believes that the information and disclosures presented are adequate to make the information presented not misleading.

The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with our consolidated financial statements as at and for the year ended December 31, 2005 included in the Company’s 2005 Annual Report on Form 10-KSB. The accounting policies followed are described in note 2 of the consolidated financial statements included in the Company’s 2005 Annual Report on Form 10-KSB.



**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)  
For the Nine Month Period Ended September 30, 2006  
Stated in US dollars**

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***Goodwill***

Goodwill represents the excess of purchase price of business combinations over the fair value of net assets acquired and is tested for impairment at least annually. The impairment test requires allocating goodwill and all other assets and liabilities to assigned reporting units. The fair value of each reporting unit is estimated and compared to the net book value of the reporting unit. If the estimated fair value of the reporting unit is less than the net book value, including goodwill, then the goodwill is written down to the implied fair value of the goodwill through a charge to expense. Because quoted market prices are not available for Gran Tierra's reporting units, the fair values of the reporting units are estimated based upon several valuation analyses, including comparable companies, comparable transactions and premiums paid. The goodwill on Gran Tierra's financial statements was a result of the Argosy acquisition, and relates entirely to the Colombia reporting segment.

***New Accounting Pronouncements***

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. This issue addresses the question of when it is appropriate to measure purchase and sales of inventory at fair value and record them in cost of sales and revenues and when they should be recorded as exchanges measured at the book value of the item sold. The EITF concluded that purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another should be combined and recorded as exchanges measured at the book value of the item sold. The consensus has been applied to new arrangements entered into and modifications or renewals of existing agreements, beginning in the second quarter of 2006. The adoption of this statement did not have a material impact on our results of operations or financial position.

In February 2006, the Financial Accounting Standards Board (FASB) issued statement 155, *Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements no. 133 and 140*. This statement resolves issues addressed in Statement 133 Implementation Issue no. D1 "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." This implementation guidance indicated that entities could continue to apply guidance related to accounting for beneficial interests in paragraphs 14 and 362 of Statement 140, which indicate that any security that can be contractually prepaid or otherwise settled in such a way that the holder of the security would not recover substantially all of its recorded investment should be subsequently measured like investments in debt securities classified as available for sale or trading, and may not be classified as held to maturity. Also, Implementation issue D1 indicated that holders of beneficial interests in securitized financial assets that are not subject to paragraphs 14 and 362 of Statement 140 are not required to apply Statement 133 to those beneficial interests, pending further guidance. Statement 155 eliminates the exemption from Statement 133 for interests in securitized financial assets. It also allows the preparer to elect fair value measurement at acquisition, at issuance or when a previously recognized financial instrument is subject to a remeasurement event. We do not expect the adoption of this statement will have a material impact on our results of operations or financial position.

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)  
For the Nine Month Period Ended September 30, 2006  
Stated in US dollars**

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In March 2006, the FASB issued statement 156 *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140*. Under statement 140, servicing assets and servicing liabilities are amortized over the expected period of estimated net servicing income or loss and assessed for impairment or increased obligation at each reporting date. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. Subsequent measurement of servicing assets and servicing liabilities at fair value is permitted, but not required. If derivatives are used to mitigate risks inherent in servicing assets and servicing liabilities, those derivatives must be accounted for at fair value. Servicing assets and servicing liabilities subsequently measured at fair value must be presented separately in the statement of financial position and there are additional disclosures for all separately recognized servicing assets and servicing liabilities. We do not expect the adoption of this statement will have a material impact on our results of operations or financial position.

In June 2006, the FASB issued interpretation no 48 *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109. Recognition of a tax position should be based on whether it is more likely than not that a tax position will be sustained. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. This interpretation is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of this interpretation will have material impact on our results of operations or financial position.

In September 2006, the Securities and Exchange Commission (SEC) release Staff Accounting Bulletin (SAB) No. 108 regarding the effects of prior year misstatements in considering current year misstatements for the purpose of a materiality assessment. The opinion in SAB 108 is that in the case of an error that has occurred and been immaterial in a number of previous years, the cumulative effect should be considered in assessing the materiality of the error in the current year. If the cumulative effect of the error is material, then the current year statements, as well as prior year statements should be restated. In the case of restated prior year statements, previously filed reports do not need to be amended, if the error was considered immaterial to previous year's financial statements. However the statements should be amended the next time they are filed. The effects of this guidance should be applied cumulatively to fiscal years ending after November 15, 2006. Additional disclosure should be made regarding any cumulative adjustments made in the current year financial statements. We do not expect the adoption of this SAB will have material impact on our results of operations or financial position.

**3.**

**BUSINESS COMBINATION**

Gran Tierra entered into a Securities Purchase Agreement dated May 25, 2006 with Crosby Capital LLC ("Crosby") to acquire all of the limited partnership interests of Argosy Energy International ("Argosy") and all of the issued and outstanding capital stock of Argosy Energy Corp. On June 20, 2006 Gran Tierra closed the Argosy acquisition and paid consideration to Crosby consisting of \$37.5 million cash, 870,647 shares of the Company's common stock and overriding and net profit interests in certain of Argosy's assets valued at \$1 million. The value of the overriding and net profit interests was based on present value of expected future cash flows. All of Argosy Energy International's assets are in Colombia.



**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

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The acquisition has been accounted for using the purchase method, and the results of Argosy Energy International have been consolidated with Gran Tierra Energy from June 20, 2006. The following table shows the allocation of the purchase price based on the fair values of the assets and liabilities acquired:

|  |             |
|--|-------------|
|  | \$          |
| Cash Paid, net                           | 36,414,385  |
| Common Shares Issued                     | 1,305,971   |
| Transaction Costs                        | 497,574     |
| Total Purchase Price                     | 38,217,930  |
| Purchase Price allocated:                |             |
| Oil and Gas Assets                       | 32,553,211  |
| Goodwill (1)                             | 15,005,083  |
| Accounts Receivable                      | 5,361,887   |
| Inventories                              | 567,355     |
| Long Term Investments                    | 6,772       |
| Accounts Payable and Accrued Liabilities | (6,085,109) |
| Long Term Liabilities                    | (49,763)    |
| Deferred Tax Liabilities                 | (9,141,506) |
| Total Purchase Price allocated           | 38,217,930  |

(1) Goodwill is not deductible for tax purposes.

The purchase price allocation has changed from the preliminary allocation performed on June 21, 2006. At June 21, 2006, the company was awaiting the results of an independent reserve audit, and relied on the information provided by Argosy for the preliminary allocation. The reserve report was received in September, 2006 and resulted in a reallocation of the purchase price. The changes are as follows:

|                                   |             |
|-----------------------------------|-------------|
|                                   | \$          |
| Oil and Gas assets (Decrease)     | (8,005,709) |
| Goodwill Increase                 | 1,411,303   |
| Deferred Tax Liabilities Decrease | 6,097,406   |
| Inventories Increase              | 497,000     |
| Total Change                      | -           |



**Gran Tierra Energy Inc.****Notes to the Condensed Consolidated Financial Statements (Unaudited)  
For the Nine Month Period Ended September 30, 2006  
Stated in US dollars**

The Argosy acquisition added 1,182,000 barrels of proven oil reserves to Gran Tierra (net after royalty) as of June 30, 2006.

The unaudited pro forma results for the year ended December 31, 2005 and the period ended September 30, 2006 are shown below, as if the acquisition had occurred on January 1, 2005. Pro forma results are not indicative of actual results or future performance.

|                              | 2006       | 2005       |
|------------------------------|------------|------------|
| Revenue                      | 15,780,000 | 12,950,000 |
| Net Income (loss)            | 865,000    | 1,569,000  |
| Earnings per share (Basic)   | 0.01       | 0.04       |
| Earnings per share (Diluted) | 0.01       | 0.03       |

**4. SEGMENT AND GEOGRAPHIC REPORTING**

The Company's reportable segments are Argentina and Colombia. The Company is primarily engaged in the exploration and production of oil and natural gas. The accounting policies for the segments are the same as those described in Note 2 of the Notes to the Consolidated Financial Statements on the Company's form 10-KSB for 2005.

The Colombia assets were acquired in the second quarter of 2006, and the Argentina assets were acquired on September 1, 2005. Therefore the comparable segmented information for 2005 includes only one month of operations for Argentina, and there is no comparable 2005 information for Colombia.

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

|  | Third Quarter, 2006 |           |           | Nine months ended September 30, 2006 |           |           |
|--|---------------------|-----------|-----------|--------------------------------------|-----------|-----------|
|  | Colombia            | Argentina | Total     | Colombia                             | Argentina | Total     |
| Revenues                                     | 3,616,833           | 1,602,474 | 5,219,308 | 4,077,035                            | 4,281,885 | 8,358,921 |
| Depreciation, Depletion<br>and Accretion     | 1,042,234           | 394,520   | 1,436,755 | 1,164,560                            | 1,125,302 | 2,289,863 |
| Segment Income (loss)<br>before income taxes | 1,385,561           | 88,950    | 1,474,511 | 1,560,233                            | 270,492   | 1,830,725 |
| Segment Capital<br>Expenditures              | 3,741,500           | 844,563   | 4,586,063 | 3,818,500                            | 2,086,063 | 5,904,563 |

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

|                                       | Third Quarter, 2005 |           |           | Nine months ended September 30, 2005 |           |           |
|---------------------------------------|---------------------|-----------|-----------|--------------------------------------|-----------|-----------|
|                                       | Colombia            | Argentina | Total     | Colombia                             | Argentina | Total     |
| Revenues                              | -                   | 349,263   | 349,263   | -                                    | 349,263   | 349,263   |
| Depreciation, Depletion and Accretion | -                   | 113,000   | 113,000   | -                                    | 113,000   | 113,000   |
| Segment Income before income taxes    | -                   | 21,055    | 21,055    | -                                    | 21,055    | 21,055    |
| Segment Capital Expenditures          | -                   | 6,884,426 | 6,884,426 | -                                    | 6,884,426 | 6,884,426 |

|                                    | September 30, 2006 |           |            | December 31, 2005 |           |           |
|------------------------------------|--------------------|-----------|------------|-------------------|-----------|-----------|
|                                    | Colombia           | Argentina | Total      | Colombia          | Argentina | Total     |
| Property, Plant and Equipment, net | 35,211,746         | 9,234,430 | 44,446,176 | -                 | 8,209,556 | 8,209,556 |
| Goodwill                           | 15,005,083         | -         | 15,005,083 | -                 | -         | -         |

The following is a reconciliation of income before income taxes for reportable segments to consolidated income before income taxes:

|  | Third Quarter, 2006 | Nine months ended September 30, 2006 |
|--|---------------------|--------------------------------------|
| Income before income taxes for reportable segments | 1,474,511           | 1,830,725                            |
| Corporate Expenses                                 | (830,449)           | (2,839,557)                          |
| Consolidated income (loss) before income taxes     | 644,062             | (1,008,832)                          |

|  | Third Quarter, 2005 | Period from January 26, 2005 to September 30, 2005 |
|--|---------------------|--|
| Income before income taxes for reportable segments | 21,055              | 21,055   |
| Corporate Expenses                                 | 294,328             | 555,844  |
| Consolidated income (loss) before income taxes     | (273,273)           | (534,789)  |

The following is a reconciliation of capital expenditures for reportable segments to consolidated capital expenditures:

|  | Third Quarter, 2006 | Nine months ended September 30, 2006 |
|--|---------------------|--------------------------------------|
|--|---------------------|--------------------------------------|

|  |           |           |
|--|-----------|-----------|
| Total capital expenditures for reportable segments | 4,586,063 | 5,904,563 |
| Corporate capital expenditures                     | 31,845    | 107,172   |
| Consolidated capital expenditures                  | 4,617,908 | 6,011,735 |

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

|  | Third Quarter,<br>2005 | Period from<br>January 26, 2005<br>to September 30,<br>2005 |
|--|------------------------|---|
| Total capital expenditures for reportable segments | 6,884,426              | 6,884,426   |
| Corporate capital expenditures                     | 50,116                 | 50,116  |
| Consolidated capital expenditures                  | 6,934,542              | 6,934,542   |

The following is a reconciliation of reportable net property, plant and equipment to consolidated net property, plant and equipment:

|  | September 30,<br>2006 | December 31,<br>2005 |
|--|-----------------------|----------------------|
| Property, Plant and Equipment, net for reportable segments | 44,446,176            | 8,209,556            |
| Corporate property, plant and equipment, net               | 205,158               | 103,652              |
| Consolidated property, plant and equipment, net            | 44,651,335            | 8,313,208            |

**5. CAPITAL ASSETS****September 30, 2006**

|                                       | Cost<br>\$ | Accumulated<br>Depletion and<br>Depreciation<br>\$ | Net Book<br>Value<br>\$ |
|---------------------------------------|------------|--|-------------------------|
| <b>Oil and natural gas properties</b> |            |  |                         |
| Proven                                | 28,307,817 | (2,682,656)  | <b>25,625,161</b>       |
| Unproven                              | 18,292,211 | -  | <b>18,292,211</b>       |
| Materials and supplies                | 234,817    | -  | <b>234,817</b>          |
| Furniture and Fixtures                | 656,192    | (461,461)  | <b>194,731</b>          |
| Computer equipment                    | 485,763    | (205,167)  | <b>280,596</b>          |
| Automobiles                           | 43,901     | (20,082)   | <b>23,819</b>           |
|                                       | 48,020,701 | (3,369,366)  | <b>44,651,335</b>       |

## Gran Tierra Energy Inc.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the Nine Month Period Ended September 30, 2006

Stated in US dollars

|                                | <b>December 31, 2005</b> |  |                   |
|--------------------------------|--------------------------|--|-------------------|
|                                | Cost                     | Accumulated<br>Depletion and<br>Depreciation | Net Book<br>Value |
|                                | \$                       | \$   | \$                |
| Oil and natural gas properties | 8,331,767                | (444,853)                                    | <b>7,886,914</b>  |
| Materials and supplies         | 300,177                  | -  | <b>300,177</b>    |
| Furniture and Fixtures         | 20,167                   | (4,805)                                      | <b>15,362</b>     |
| Computer equipment             | 73,682                   | (2,649)                                      | <b>71,033</b>     |
| Automobiles                    | 49,534                   | (9,812)                                      | <b>39,722</b>     |
|                                | 8,775,327                | (462,119)                                    | <b>8,313,208</b>  |

Following is a description of properties and projects in unproven oil and gas properties, which are not currently subject to amortization

| Block            | Description                   | Acquisition<br>Cost | Exploration<br>Cost | Transfer to<br>Amortizable | Total     | Timing of<br>Amortization |
|------------------|-------------------------------|---------------------|---------------------|----------------------------|-----------|---------------------------|
| Rio<br>Magdalena | Popa<br>Exploration<br>well   | 1,000,000           | 3,500,000           |                            | 4,500,000 | Q1 2007                   |
| Rio<br>Magdalena | Exploration<br>Land           | 4,052,301           |                     | (55,000)                   | 3,997,301 | 2008                      |
| Talora           | Exploration<br>Land           | 402,720             | 20,000              | (6,000)                    | 416,720   | 2008                      |
| Chaza            | Exploration<br>Land           | 2,588,912           | 38,000              |                            | 2,626,912 | 2008                      |
| Mecaya           | Exploration<br>Land           | 381,799             | 29,000              |                            | 410,799   | 2008                      |
| Primavera        | Exploration<br>Land           | 282,427             | 54,000              |                            | 336,427   | 2008                      |
| Santana          | Linda<br>Probable<br>reserves | 378,378             |                     |                            | 378,378   | Q4 2007                   |
| Santana          | Mary<br>Probable<br>reserves  | 1,010,077           |                     |                            | 1,010,077 | Q4 2007                   |
| Santana          |                               | 96,198              |                     |                            | 96,198    | Q4 2007                   |

|           |                                    |            |           |             |                 |
|-----------|------------------------------------|------------|-----------|-------------|-----------------|
|           | Miraflores<br>Probable<br>reserves |            |           |             |                 |
| Santana   | G&G data                           | 380,000    |           | (380,000)   | -               |
|           | Exploration                        |            |           |             |                 |
| Guayuyaco | Land                               | 3,791,841  | 67,000    |             | 3,858,841 2008  |
| Guayuyaco | Probable<br>reserves               | 693,558    |           | (33,000)    | 660,558 Q4 2007 |
| Guayuyaco | G&G Data                           | 1,044,000  |           | (1,044,000) | -               |
| Guayuyaco | Seismic                            | 431,000    |           | (431,000)   | -               |
|           | New<br>Projects                    | 390,000    |           | (390,000)   | -               |
| Total     |                                    | 16,923,211 | 3,708,000 | (2,339,000) | 18,292,211      |

All fields are in Colombia.

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

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**6. SHARE CAPITAL**

|   | Number of<br>Shares | Amount<br>\$  |
|---|---------------------|---------------|
| <b>Balance, January 1, 2006</b>                         | <b>43,285,112</b>   | <b>43,285</b> |
| Common shares issued, at par value of \$0.001 per share | 52,170,647          | 52,170        |
| <b>Balance, September 30, 2006</b>                      | <b>95,455,759</b>   | <b>95,455</b> |

*Share capital*

Share capital consists of 78,471,632 common voting shares of the Company and 16,984,127 exchangeable shares of Goldstrike Exchange Co. (collectively, "common stock"). Each exchangeable share is exchangeable only into one common voting share of the Company. The holders of common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. The holders of common stock have no pre-emptive rights, no conversion rights, and there are no redemption provisions applicable to the common stock.

*Warrants*

At September 30, 2006, the Company had 14,472,622 warrants outstanding to purchase 7,236,311 common shares for \$1.25 per share and 55,841,208 warrants outstanding to purchase 27,920,604 common shares for \$1.75 per share.

*Registration Rights Payments*

The shares and warrants have registration rights associated with their issuance.

The 15,047,606 units issued in the fourth quarter of 2005 and first quarter of 2006 have liquidated damages payable in the amount of 1% of the purchase price of the unit per month payable each month the registration statement is not declared effective beyond the mandatory effective date (July 10<sup>th</sup>, 2006). Total amount accrued to September 30, 2006 for these liquidated damages is \$261,182.

The 50,000,000 units issued in June 2006 have liquidated damages payable each month the registration statement is not declared effective beyond the mandatory effective date, being 120 days after the closing date of June 20, 2006 or 150 days if the registration statement is subsequently reviewed by the Securities Exchange Commission:

- 1% of the purchase price for the 1<sup>st</sup> month after the mandatory effective date
- 1.5% of the purchase price for the 2<sup>nd</sup> and 3<sup>rd</sup> month after the mandatory effective date
- 2% of the purchase price for the 4<sup>th</sup> and 5<sup>th</sup> months after the mandatory effective date and
- ½% increase each quarter thereafter

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
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**Stated in US dollars**

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The total amount of liquidated damages shall not exceed 25% of the purchase price for the units. Under these provisions the maximum payment the company would make would be \$18,750,000.

*Stock options*

The Company has granted options to purchase common shares to certain directors, officers, employees and consultants. Each option permits the holder to purchase one common share at the stated exercise price. The options vest over three years and have a term of ten years, or end of service to the Company, which ever occurs first. At the time of grant, the exercise price equals the market price. The following options have been granted:

|                                     | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>(\$/option) |
|-------------------------------------|----------------------|--|
| <b>Outstanding, January 1, 2006</b> | 1,940,000            | 1.12   |
| Granted                             | -                    | -  |
| Cancelled                           | (110,000)            | 1.12   |
| <b>Balance, September 30, 2006</b>  | <b>1,830,000</b>     | <b>1.12</b>  |

The table below summarizes unexercised stock options at September 30, 2006:

| Exercise Price (\$/option) | Number of<br>Options<br>Outstanding | Weighted<br>Average Expiry<br>(years) |
|----------------------------|-------------------------------------|---------------------------------------|
| \$0.80                     | 1,580,000                           | 9.1                                   |
| \$2.62                     | 250,000                             | 9.2                                   |
| <b>Total</b>               | <b>1,830,000</b>                    | <b>9.1</b>                            |

No stock options were exercisable at September 30, 2006.

Total stock-based compensation expense included in general and administrative expense was \$203,306. The Black-Scholes option pricing model was used to determine the fair value of the option grants with the following assumptions:



**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
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**Stated in US dollars**

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|                                    |      |
|------------------------------------|------|
| Dividend yield (\$ per share)      | 0.00 |
| Volatility (%)                     | 57.0 |
| Risk-free interest rate (%)        | 2.33 |
| Expected life (years)              | 3.0  |
| Forfeiture percentage (% per year) | 10.0 |

The weighted average fair value per option is \$0.35.

**7. ASSET RETIREMENT OBLIGATION**

Changes in the carrying amounts of the asset retirement obligations associated with our oil and natural gas properties are as follows:

|  | September 30,<br>2006 | December 31,<br>2005 |
|--|-----------------------|----------------------|
|  | \$                    | \$                   |
| <b>Balance beginning of period</b>             | <b>67,732</b>         | <b>-</b>             |
| Obligations assumed with property acquisitions | 57,682                | 66,931               |
| Expenditures made on asset retirements         | (9,218)               | -                    |
| Accretion                                      | 5,459                 | 801                  |
| <b>Balance, end of period</b>                  | <b>121,655</b>        | <b>67,732</b>        |

**8. INCOME TAXES**

The Company has losses of approximately \$5,331,000 that can be carried forward and applied against future taxable income. A valuation allowance has been taken for the potential income tax benefit associated with the losses incurred by the Company, due to uncertainty of utilisation of the tax losses.

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

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

|   | <b>September 30,<br/>2006</b> | <b>September 30,<br/>2005</b> |
|---|-------------------------------|-------------------------------|
|   | \$                            | \$                            |
| Loss before income taxes                          | <b>(1,008,832)</b>            | <b>(534,789)</b>              |
| Statutory income tax rate                         | <b>34%</b>                    | <b>34%</b>                    |
| Income tax benefit expected                       | <b>(343,003)</b>              | <b>(181,828)</b>              |
| Stock-based compensation                          | <b>69,124</b>                 | <b>-</b>                      |
| Tax losses in other jurisdictions, not recognized | <b>1,122,079</b>              | <b>189,197</b>                |
| Income tax expense                                | <b>848,200</b>                | <b>7,369</b>                  |

The deferred income tax liability of \$7,849,421 on the balance sheet is related entirely to Colombia operations, for the following items:

|  | <b>September 30,<br/>2006</b> |
|--|-------------------------------|
|  | \$                            |
| Property, Plant and Equipment          | <b>8,006,421</b>              |
| Other long term assets and liabilities | <b>(157,000)</b>              |
| Total                                  | <b>7,849,421</b>              |

**9. CHANGES IN NON-CASH WORKING CAPITAL**

The changes in non-cash working capital are comprised of the following:

|  | <b>September 30,<br/>2006</b> | <b>September 30,<br/>2005</b> |
|--|-------------------------------|-------------------------------|
|  | \$                            | \$                            |
| Increase in Accounts receivable        | <b>(986,272)</b>              | <b>(423,914)</b>              |
| Increase in Prepaids                   | <b>(185,586)</b>              | <b>-</b>                      |
| Decrease in Inventory                  | <b>110,073</b>                | <b>-</b>                      |
| Increase in Accounts payable           | <b>1,032,811</b>              | <b>147,176</b>                |
| Increase in Accrued liabilities        | <b>568,874</b>                | <b>76,637</b>                 |
| Increase in Taxes Payable              | <b>957,404</b>                | <b>7,369</b>                  |
| Net Change in Non-cash Working Capital | <b>1,497,304</b>              | <b>(192,732)</b>              |

## 10. COMMITMENTS

The Company entered into a lease beginning February 2006 for office space in Calgary, Canada that expires January 31, 2011 for \$6,824 per month, and a lease beginning March 2006 for office space in Buenos Aires, Argentina that expires February 29, 2008 for \$2,000 per month. In Colombia, the Company holds leases on 3 cars, one expiring September 27, 2007 for \$2,264 per month, one expiring May 3, 2009 for \$932 per month and one expiring September 25, 2008 for \$1,496. There are also a two office leases expiring April 1, 2009 and February 28, 2007 for \$696 and \$2,326 respectively, and one housing accommodation lease for \$1,739 expiring June 1, 2007. These leases are operating leases.

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**  
**For the Nine Month Period Ended September 30, 2006**  
**Stated in US dollars**

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Future minimum lease payments under these leases at September 30, 2006 are as follows:

|                                     | \$             |
|-------------------------------------|----------------|
| 2006                                | 54,831         |
| 2007                                | 177,097        |
| 2008                                | 118,887        |
| 2009                                | 89,330         |
| 2010                                | 81,888         |
| 2011                                | 6,824          |
| <b>Total minimum lease payments</b> | <b>528,857</b> |

The company entered into four capital leases in February March and June 2006 for office equipment in Calgary. The length of the leases range from expiration in February 2008 until February 2011. At September 30, 2006 capital assets included \$34,405 related to assets under capital leases and total monthly payments are approximately \$1,140.

Future minimum lease payments under these leases at September 30, 2006 are as follows:

|                                     | \$            |
|-------------------------------------|---------------|
| 2006                                | 3,420         |
| 2007                                | 13,680        |
| 2008                                | 8,958         |
| 2009                                | 4,366         |
| 2010                                | 3,874         |
| 2011                                | 646           |
| <b>Total minimum lease payments</b> | <b>34,944</b> |

Interest expense incurred under these capital leases to September 30, 2006 was \$910.

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)  
For the Nine Month Period Ended September 30, 2006  
Stated in US dollars**

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*Guarantees*

Corporate indemnities have been provided by the Company to directors and officers for various items including, but not limited to, all costs to settle suits or actions due to their association with the Company and its subsidiaries and/or affiliates, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. Each indemnity, subject to certain exceptions, applies for so long as the indemnified person is a director or officer of one of the Company's subsidiaries and/or affiliates. The maximum amount of any potential future payment cannot be reasonably estimated.

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

**11. Disagreement with Ecopetrol**

As of September 30, 2006 the contracting parties of Guayuyaco Association Contract, Ecopetrol and Argosy Energy International, consulted with their legal advisors to clarify the procedure for allocation of oil produced and sold during the long term test of the Guayuyaco-1 and Guayuyaco-2 wells. Ecopetrol has advised Argosy of a material difference in the interpretation of the procedure established in the Clause 3.5 of Attachment-B of the Guayuyaco association Contract. Ecopetrol interprets the contract to provide that the extend test production up to a value equal to 30% of the direct exploration costs of the wells is for Ecopetrol's account only and serves as reimbursement of its 30% back in to the Guayuyaco discovery. Argosy's contention is that this amount is merely the recovery of 30% of the direct exploration costs of the wells and not exclusively for benefit of Ecopetrol. While Argosy believes its interpretation of the Guayuyaco Association Contract is correct, the resolution of this issue is still pending of agreement between the parties or determination through legal proceedings.

The estimated value of disputed production is \$2,361,188 which possible loss is shared 50% (\$1,180,594) with Solana Petroleum Exploration (Colombia) S.A. partner in the contract and 50% Argosy. No amount has been accrued in the financial statements related to this disagreement.

**12. Subsequent Events**

On February 22, 2006, the Company filed a Current Report on Form 8-K disclosing that the Company had made an offer to acquire certain interests of Compañía General de Combustibles S.A. ("CGC"). The Company offered to purchase CGC's participation interests in a total of eight properties in Argentina. As disclosed in the Company's

Current Report on Form 8-K filed on August 8, 2006 the transaction is subject to Argentinean court approvals, the potential exercise of rights of first refusal and the need to obtain third-party consents.

**Gran Tierra Energy Inc.**

**Notes to the Condensed Consolidated Financial Statements (Unaudited)**

**For the Nine Month Period Ended September 30, 2006**

**Stated in US dollars**

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The Company has received evidence that court approval in Argentina has now been granted. On November 2, 2006 the Company purchased interests in four properties (a 93.18% participation in the Valle Morado Block, a 100% interest in the Santa Victoria Block and the remaining 50% interests in the Nacatimbay and Ipaguazu Blocks (in which the Company currently holds 50% interests)) for a total consideration of \$2.1 million. The Company is considering its options whether to acquire the interests in the remaining four properties, which interests remain subject to rights of first refusal among joint venture partners and other third party consents.

Gran Tierra signed a License Contract for the Exploration and Exploitation of Hydrocarbons covering Block 122 in Peru on June 8, 2006. Terms of the License define a seven-year exploration term with four periods, each with minimum work obligations. Final ratification by the government of Peru occurred on November 3, 2006. The minimum commitment for the first work period of 18 months, which is mandatory, is \$0.5 million. The subsequent three work periods are optional to the Company.

**Item 6. Exhibits and Reports on Form 8-K**

The following exhibits are filed with or incorporated as part of this report as required by Item 601 of Regulation S-B:

| <b>Exhibit No.</b> | <b>Description</b>   | <b>Incorporated by Reference to Filings Indicated</b> |
|--------------------|--|---|
| 31.1               | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer* |   |
| 31.2               | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer* |   |
| 32                 | Section 1350 Certifications*                                       |   |

\* filed herewith



**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAN TIERRA ENERGY,  
INC.

Date: January 17, 2007      /s/ Dana Coffield  
By: Dana Coffield  
Its: Chief Executive Officer

Date: January 17, 2007      /s/ Martin Eden  
By: Martin Eden  
Its: Chief Financial Officer

**EXHIBIT INDEX**

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| 32                 | Section 1350 Certifications*                                       |   |

\* filed herewith