

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 September 30,</b>		<b>Nine months ended September 30, 2006 and the period from January 26 to September 30, 2005</b>	
	2006 \$	2005 \$	2006 \$	2005 \$
<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 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 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 SHARE</b>				
Basic	0.00	(0.02)	(0.03)	(0.11)
Diluted	0.00	(0.02)	(0.03)	(0.11)
Weighted average number of shares - Basic	95,455,759	12,083,333	63,043,998	4,903,297
Weighted average number of 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, 2006</b>	<b>December 31, 2005</b>
	<b>\$</b>	<b>\$</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 September 30,</b>	<b>For the Period from January 26, 2005 to 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 and Accretion	1,042,234	394,520	1,436,755	1,164,560	1,125,302	2,289,863
Segment Income (loss) before income taxes	1,385,561	88,950	1,474,511	1,560,233	270,492	1,830,725
Segment Capital 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
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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, 2005	Period from January 26, 2005 to September 30, 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, 2006	December 31, 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 \$	Accumulated Depletion and Depreciation \$	Net Book Value \$
<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 Depletion and Depreciation	Net Book 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

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

	Miraflores Probable reserves				
Santana	G&G data	380,000		(380,000)	-
	Exploration				
Guayuyaco	Land	3,791,841	67,000		3,858,841 2008
	Probable				
Guayuyaco	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				
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**  
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**6. SHARE CAPITAL**

	Number of Shares	Amount \$
<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.**

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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 Options	Weighted Average Exercise Price (\$/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 Options Outstanding	Weighted Average Expiry (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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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, 2006	December 31, 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**  
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	<b>September 30, 2006</b>	<b>September 30, 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, 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, 2006</b>	<b>September 30, 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)**  
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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)  
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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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