

GRAN TIERRA ENERGY INC.  
Form 10-Q  
August 02, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

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

For the quarterly period ended June 30, 2018

or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission file number 001-34018

GRAN TIERRA ENERGY INC.  
(Exact name of registrant as specified in its charter)

Delaware 98-0479924  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

900, 520 - 3 Avenue SW  
Calgary, Alberta Canada T2P 0R3  
(Address of principal executive offices, including zip code)  
(403) 265-3221  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

On July 30, 2018, the following number of shares of the registrant's capital stock were outstanding: 391,175,023 shares of the registrant's Common Stock, \$0.001 par value.

Gran Tierra Energy Inc.

Quarterly Report on Form 10-Q

Quarterly Period Ended June 30, 2018

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## CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of our management for future operations, covenant compliance, capital spending plans and those statements preceded by, followed by or that otherwise include the words "believe", "expect", "anticipate", "intend", "estimate", "project", "target", "goal", "plan", "budget", "objective", "could", "should", or similar expressions are forward-looking statements. We can give no assurances that the assumptions upon which the forward-looking statements are based will prove to be correct or that, even if correct, intervening circumstances will not occur to cause actual results to be different than expected. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements, including, but not limited to, sustained or future declines in commodity prices; potential future impairments and reductions in proved reserve quantities and value; our operations are located in South America, and unexpected problems can arise due to guerilla activity; technical difficulties and operational difficulties may arise which impact the production, transport or sale of our products; geographic, political and weather conditions can impact the production, transport or sale of our products; the risk that current global economic and credit conditions may impact oil prices and oil consumption more than we currently predict; our ability to execute business plans; the risk that unexpected delays and difficulties in developing currently owned properties may occur; the timely receipt of regulatory or other required approvals for our operating activities; the failure of exploratory drilling to result in commercial wells; unexpected delays due to the limited availability of drilling equipment and personnel; the risk that current global economic and credit market conditions may impact oil prices and oil consumption more than we currently predict, which could cause us to further modify our strategy and capital spending program; those factors set out in Part I, Item 1A "Risk Factors" in our 2017 Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission ("SEC"). The information included herein is given as of the filing date of this Quarterly Report on Form 10-Q with the SEC and, except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

## GLOSSARY OF OIL AND GAS TERMS

In this document, the abbreviations set forth below have the following meanings:

|      |                        |       |                                   |
|------|------------------------|-------|-----------------------------------|
| bbl  | barrel                 | BOE   | barrels of oil equivalent         |
| bopd | barrels of oil per day | BOEPD | barrels of oil equivalent per day |
| Mcf  | thousand cubic feet    | NAR   | net after royalty                 |

Sales volumes represent production NAR adjusted for inventory changes. Our oil and gas reserves are reported NAR. Our production is also reported NAR, except as otherwise specifically noted as "working interest production before royalties." Natural gas liquids ("NGLs") volumes are converted to BOE on a one-to-one basis with oil. Gas volumes are converted to BOE at the rate of 6 Mcf of gas per bbl of oil, based upon the approximate relative energy content of gas and oil. The rate is not necessarily indicative of the relationship between oil and gas prices. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.



## PART I - Financial Information

## Item 1. Financial Statements

Gran Tierra Energy Inc.  
Condensed Consolidated Statements of Operations (Unaudited)  
(Thousands of U.S. Dollars, Except Share and Per Share Amounts)

|   | Three Months Ended<br>June 30, |             | Six Months Ended June<br>30, |            |
|---|--------------------------------|-------------|------------------------------|------------|
|   | 2018                           | 2017        | 2018                         | 2017       |
| OIL AND NATURAL GAS SALES<br>(Notes 3 and 7)              | \$ 163,446                     | \$ 96,128   | \$ 301,674                   | \$ 190,787 |
| EXPENSES  |                                |             |                              |            |
| Operating   | 35,059                         | 27,208      | 61,324                       | 51,145     |
| Transportation  | 6,522                          | 6,492       | 13,519                       | 13,434     |
| Depletion, depreciation and accretion (Note 3)            | 46,607                         | 31,813      | 86,068                       | 58,689     |
| General and administrative (Note 3)                       | 13,213                         | 9,513       | 24,373                       | 18,225     |
| Equity tax  | —                              | —           | —                            | 1,224      |
| Foreign exchange loss                                     | 1,924                          | 3,897       | 982                          | 2,050      |
| Financial instruments loss (gain) (Note 10)               | 4,768                          | (1,447 )    | 11,714                       | (6,886 )   |
| Interest expense (Note 5)                                 | 7,375                          | 3,331       | 12,870                       | 6,426      |
|   | 115,468                        | 80,807      | 210,850                      | 144,307    |
| LOSS ON SALE  | (292 )                         | (9,076 )    | (292 )                       | (9,076 )   |
| INTEREST INCOME   | 610                            | 245         | 1,396                        | 653        |
| INCOME BEFORE INCOME TAXES (Note 3)                       | 48,296                         | 6,490       | 91,928                       | 38,057     |
| INCOME TAX EXPENSE  |                                |             |                              |            |
| Current (Note 8)  | 4,827                          | 1,772       | 17,116                       | 9,189      |
| Deferred (Note 8)   | 23,169                         | 11,525      | 36,651                       | 22,904     |
|   | 27,996                         | 13,297      | 53,767                       | 32,093     |
| NET AND COMPREHENSIVE INCOME (LOSS)                       | \$ 20,300                      | \$ (6,807 ) | \$ 38,161                    | \$ 5,964   |
| NET INCOME (LOSS) PER SHARE                               |                                |             |                              |            |
| - BASIC AND DILUTED                                       | \$ 0.05                        | \$ (0.02 )  | \$ 0.10                      | \$ 0.01    |
| WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC<br>(Note 6)   | 391,054,204                    | 98,585,290  | 391,173,460                  | 98,795,023 |
| WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED<br>(Note 6) | 427,455,092                    | 98,585,290  | 427,242,014                  | 98,816,091 |

(See notes to the condensed consolidated financial statements)

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Gran Tierra Energy Inc.  
 Condensed Consolidated Balance Sheets (Unaudited)  
 (Thousands of U.S. Dollars, Except Share and Per Share Amounts)

|   | As at June<br>30, 2018 | As at<br>December<br>31, 2017 |
|---|------------------------|-------------------------------|
| <b>ASSETS</b>   |                        |                               |
| Current Assets  |                        |                               |
| Cash and cash equivalents (Note 11)                               | \$ 125,807             | \$ 12,326                     |
| Restricted cash and cash equivalents (Note 11)                    | 2,836                  | 11,787                        |
| Accounts receivable   | 63,030                 | 45,353                        |
| Investment (Note 10)  | 32,654                 | 25,055                        |
| Derivatives (Note 10)   | 930                    | 302                           |
| Taxes receivable  | 62,689                 | 40,831                        |
| Other current assets  | 14,423                 | 9,591                         |
| Total Current Assets  | 302,369                | 145,245                       |
| Oil and Gas Properties (using the full cost method of accounting) |                        |                               |
| Proved  | 750,948                | 629,081                       |
| Unproved  | 423,808                | 464,948                       |
| Total Oil and Gas Properties                                      | 1,174,756              | 1,094,029                     |
| Other capital assets  | 3,440                  | 5,195                         |
| Total Property, Plant and Equipment (Notes 3 and 4)               | 1,178,196              | 1,099,224                     |
| Other Long-Term Assets  |                        |                               |
| Deferred tax assets   | 18,248                 | 57,310                        |
| Investment (Note 10)  | 15,302                 | 19,147                        |
| Other long-term assets (Note 11)                                  | 5,389                  | 6,112                         |
| Goodwill (Note 3)   | 102,581                | 102,581                       |
| Total Other Long-Term Assets                                      | 141,520                | 185,150                       |
| Total Assets (Note 3)   | \$ 1,622,085           | \$ 1,429,619                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                       |                        |                               |
| Current Liabilities   |                        |                               |
| Accounts payable and accrued liabilities                          | \$ 126,726             | \$ 125,876                    |
| Derivatives (Note 10)   | 27,157                 | 21,151                        |
| Taxes payable   | 3,848                  | 9,324                         |
| Asset retirement obligation                                       | 110                    | 323                           |
| Equity compensation award liability (Note 10)                     | 11,597                 | 295                           |
| Total Current Liabilities   | 169,438                | 156,969                       |
| Long-Term Liabilities   |                        |                               |
| Long-term debt (Notes 5 and 10)                                   | 398,130                | 256,542                       |
| Deferred tax liabilities  | 24,528                 | 28,417                        |
| Asset retirement obligation                                       | 35,839                 | 31,241                        |
| Equity compensation award liability (Note 10)                     | 9,480                  | 11,135                        |
| Other long-term liabilities                                       | 9,381                  | 8,980                         |
| Total Long-Term Liabilities                                       | 477,358                | 336,315                       |

Contingencies (Note 9)

Shareholders' Equity

|  |             |             |
|--|-------------|-------------|
| Common Stock (Note 6) (390,017,518 and 385,191,042 shares of Common Stock and 1,135,239 and 6,111,665 exchangeable shares, par value \$0.001 per share, issued and outstanding as at June 30, 2018, and December 31, 2017, respectively) | 10,295      | 10,295      |
| Additional paid in capital   | 1,328,037   | 1,327,244   |
| Deficit  | (363,043 )  | (401,204 )  |
| Total Shareholders' Equity   | 975,289     | 936,335     |
| Total Liabilities and Shareholders' Equity   | \$1,622,085 | \$1,429,619 |

(See notes to the condensed consolidated financial statements)



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

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2018                         | 2017      |
| <b>Operating Activities</b>  |                              |           |
| Net income   | \$38,161                     | \$5,964   |
| Adjustments to reconcile net income to net cash provided by operating activities:              |                              |           |
| Depletion, depreciation and accretion (Note 3)   | 86,068                       | 58,689    |
| Deferred tax expense   | 36,651                       | 22,904    |
| Stock-based compensation (Note 6)  | 10,202                       | 3,183     |
| Amortization of debt issuance costs (Note 5)   | 1,513                        | 1,225     |
| Cash settlement of restricted share units  | (360 )                       | (501 )    |
| Unrealized foreign exchange loss   | 539                          | 1,076     |
| Financial instruments loss (gain) (Note 10)  | 11,714                       | (6,886 )  |
| Cash settlement of financial instruments (Note 10)   | (15,483 )                    | 1,216     |
| Cash settlement of asset retirement obligation   | (369 )                       | (298 )    |
| Loss on sale   | 292                          | 9,076     |
| Net change in assets and liabilities from operating activities (Note 11)                       | (37,994 )                    | (28,112 ) |
| Net cash provided by operating activities  | 130,934                      | 67,536    |
| <b>Investing Activities</b>  |                              |           |
| Additions to property, plant and equipment (Note 3)  | (157,088 )                   | (104,025) |
| Property acquisitions  | (3,100 )                     | (30,410 ) |
| Net proceeds from sale of Brazil business unit   | —                            | 34,481    |
| Cash deposit received for letter of credit arrangements upon sale of Brazil business unit      | —                            | 4,700     |
| Changes in non-cash investing working capital  | (6,142 )                     | (627 )    |
| Net cash used in investing activities  | (166,330 )                   | (95,881 ) |
| <b>Financing Activities</b>  |                              |           |
| Proceeds from bank debt, net of issuance costs (Note 5)  | 4,988                        | 98,304    |
| Repayment of bank debt (Note 5)  | (153,000 )                   | (33,000 ) |
| Proceeds from exercise of stock options (Note 6)   | 845                          | —         |
| Repurchase of shares of Common Stock (Note 6)  | (1,208 )                     | (10,000 ) |
| Proceeds from issuance of Senior Notes, net of issuance costs (Note 5)                         | 288,087                      | —         |
| Net cash provided by financing activities  | 139,712                      | 55,304    |
| Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents       | (69 )                        | (1,175 )  |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents                | 104,247                      | 25,784    |
| Cash, cash equivalents and restricted cash and cash equivalents, beginning of period (Note 11) | 26,678                       | 43,267    |
| Cash, cash equivalents and restricted cash and cash equivalents, end of period (Note 11)       | \$130,925                    | \$69,051  |

Supplemental cash flow disclosures (Note 11)

(See notes to the condensed consolidated financial statements)



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

|  | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2017 |
|--|--|--|
| <b>Share Capital</b>   |  |  |
| Balance, beginning of period   | \$ 10,295                                  | \$ 10,303                                  |
| Repurchase of Common Stock (Note 6)  | —  | (4 )                                       |
| Balance, end of period   | 10,295                                     | 10,299                                     |
| <b>Additional Paid in Capital</b>  |  |  |
| Balance, beginning of period   | 1,327,244                                  | 1,342,656                                  |
| Exercise of stock options (Note 6)   | 845  | —  |
| Stock-based compensation (Note 6)  | 1,156                                      | 1,354                                      |
| Repurchase of Common Stock (Note 6)  | (1,208 )                                   | (9,996 )                                   |
| Balance, end of period   | 1,328,037                                  | 1,334,014                                  |
| <b>Deficit</b>   |  |  |
| Balance, beginning of period   | (401,204 )                                 | (493,972 )                                 |
| Net income   | 38,161                                     | 5,964                                      |
| Cumulative adjustment for accounting change related to tax reorganizations | —  | 124,476                                    |
| Balance, end of period   | (363,043 )                                 | (363,532 )                                 |
| <b>Total Shareholders' Equity</b>  | <b>\$975,289</b>                           | <b>\$980,781</b>                           |

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.  
Notes to the Condensed Consolidated Financial Statements (Unaudited)  
(Expressed in U.S. Dollars, unless otherwise indicated)

## 1. Description of Business

Gran Tierra Energy Inc., a Delaware corporation (the “Company” or “Gran Tierra”), is a publicly traded company focused on oil and natural gas exploration and production in Colombia.

## 2. Significant Accounting Policies

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of results for the interim periods.

The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for interim unaudited condensed consolidated financial statements. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements as at and for the year ended December 31, 2017, included in the Company’s 2017 Annual Report on Form 10-K, filed with the SEC on February 27, 2018.

The Company’s significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company’s 2017 Annual Report on Form 10-K and are the same policies followed in these interim unaudited condensed consolidated financial statements, except as noted below. The Company has evaluated all subsequent events through to the date these interim unaudited condensed consolidated financial statements were issued.

### Recently Adopted Accounting Pronouncements

#### Revenue from Contracts with Customers

The Company adopted Accounting Standard Codification (“ASC”) 606 Revenue from Contracts with Customers with a date of initial application of January 1, 2018 in accordance with the modified retrospective approach without using the practical expedients. Except for providing enhanced disclosures about the Company’s revenue transactions, the application of ASC 606 did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

#### a) Significant Accounting Policy

The Company’s revenue relates to oil and natural gas sales in Colombia. The Company recognizes revenue when it transfers control of the product to a customer. This generally occurs at the time the customer obtains legal title to the product and when it is physically transferred to the delivery point agreed with the customer. Payment terms are generally within three business days following delivery of an invoice to the customer. Revenue is recognized based on the consideration specified in contracts with customers. Revenue represents the Company’s share and is recorded net of royalty payments to governments and other mineral interest owners.

The Company evaluates its arrangement with third parties and partners to determine if the Company acts as a principal or an agent. In making this evaluation, management considers if the Company obtains control of the product

delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in transaction, then the revenue is recognized on a net-basis, only reflecting the fee realized by the Company from the transaction.

Tariffs, tolls and fees charged to other entities for use of pipelines owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental arrangements.

In the comparative period, revenue from the production of oil and natural gas was recognized when the customer took title and assumed the risks and rewards of ownership, prices were fixed or determinable, the sale was evidenced by a contract and collection of the revenue was reasonably assured.

## b) Significant Judgments

When determining if the Company acted as a principal or as an agent in transactions, management determines if the Company obtains control of the product. As part of this assessment, management considers detailed criteria for revenue recognition set out in ASC 606.

### Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 addressed certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 was effective for annual reporting periods and interim reporting periods within those annual reporting periods, beginning after December 15, 2017. The implementation of this update did not impact on the Company's consolidated financial position, results of operations or cash flows or disclosure.

In February 2018, the FASB issued ASU 2018-03, "Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2018-03 clarified certain aspects of the guidance in ASU 2016-01. ASU 2018-03 is effective for annual reporting periods beginning after December 15, 2017 and interim reporting periods within those annual reporting periods beginning after June 15, 2018. Early adoption is permitted upon adoption of ASU 2016-01. The amendments should be applied retrospectively with a cumulative-effect adjustment to the effective date of ASU 2016-01. The Company early adopted this update on January 1, 2018. The implementation of this update did not impact the Company's consolidated financial position, results of operations or cash flows or disclosure.

### Recently Issued but Not Yet Adopted Accounting Pronouncements

#### Leases

In January 2018, the FASB issued ASU 2018-01, "Land Easement Practical Expedient for Transition to Topic 842". ASU 2018-01 provides an optional transition practical expedient that, if elected, would not require an organization to reconsider their accounting for existing or expired land easements that were not previously accounted for as leases under Topic 840. The effective date and transition requirements for the amendment is the same as the effective date and transition requirements in Update 2016-02. The Company is planning to adopt ASU 2018-01 upon transition to ASU 2016-01 "Leases".

The Company is finalizing an assessment of its contract inventory using certain practical expedients to determine which contracts meet the definition of a lease. The next steps will include classifying leases as either financing or operating, establishing interest rates and determining the value of right-of-use lease assets and lease liabilities. The Company expects to apply the guidance of ASU 2016-02 using a modified retrospective transition approach.

### 3. Segment and Geographic Reporting

The Company is primarily engaged in the exploration and production of oil and natural gas. Commencing 2018, the Company has one reportable segment based on geographic organization, Colombia. Prior to the sale of the Company's Brazil business unit effective June 30, 2017 and Peru business unit effective December 18, 2017, Brazil and Peru were reportable segments. The "All Other" category represents the Company's corporate activities, Mexico activities and Brazil and Peru activities until the date of sale.

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

Three Months Ended June  
30, 2018

| (Thousands of U.S. Dollars)           | Colombia  | All<br>Other | Total     |
|---------------------------------------|-----------|--------------|-----------|
| Oil and natural gas sales             | \$163,446 | \$—          | \$163,446 |
| Depletion, depreciation and accretion | 46,065    | 542          | 46,607    |
| General and administrative expenses   | 7,213     | 6,000        | 13,213    |
| Income (loss) before income taxes     | 51,029    | (2,733)      | 48,296    |
| Segment capital expenditures          | 83,757    | 637          | 84,394    |

Three Months Ended June  
30, 2017

| (Thousands of U.S. Dollars)           | Colombia | All<br>Other | Total    |
|---------------------------------------|----------|--------------|----------|
| Oil and natural gas sales             | \$91,905 | \$4,223      | \$96,128 |
| Depletion, depreciation and accretion | 30,130   | 1,683        | 31,813   |
| General and administrative expenses   | 5,229    | 4,284        | 9,513    |
| Income (loss) before income taxes     | 21,598   | (15,108)     | 6,490    |
| Segment capital expenditures          | 55,436   | 2,429        | 57,865   |

Six Months Ended June 30,  
2018

| (Thousands of U.S. Dollars)           | Colombia  | All<br>Other | Total     |
|---------------------------------------|-----------|--------------|-----------|
| Oil and natural gas sales             | \$301,674 | \$—          | \$301,674 |
| Depletion, depreciation and accretion | 84,564    | 1,504        | 86,068    |
| General and administrative expenses   | 14,022    | 10,351       | 24,373    |
| Income (loss) before income taxes     | 112,180   | (20,252)     | 91,928    |
| Segment capital expenditures          | 156,318   | 770          | 157,088   |

Six Months Ended June 30,  
2017

| (Thousands of U.S. Dollars)           | Colombia  | All<br>Other | Total     |
|---------------------------------------|-----------|--------------|-----------|
| Oil and natural gas sales             | \$182,369 | \$8,418      | \$190,787 |
| Depletion, depreciation and accretion | 55,065    | 3,624        | 58,689    |
| General and administrative expenses   | 10,061    | 8,164        | 18,225    |
| Income (loss) before income taxes     | 58,742    | (20,685)     | 38,057    |
| Segment capital expenditures          | 98,276    | 5,749        | 104,025   |

As at June 30, 2018

| (Thousands of U.S. Dollars)   | Colombia    | All<br>Other | Total       |
|-------------------------------|-------------|--------------|-------------|
| Property, plant and equipment | \$1,176,540 | \$1,656      | \$1,178,196 |
| Goodwill                      | 102,581     | —            | 102,581     |
| All other assets              | 175,563     | 165,745      | 341,308     |
| Total Assets                  | \$1,454,684 | \$167,401    | \$1,622,085 |

As at December 31, 2017

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| (Thousands of U.S. Dollars)   | Colombia    | All Other | Total       |
|-------------------------------|-------------|-----------|-------------|
| Property, plant and equipment | \$1,096,833 | \$2,391   | \$1,099,224 |
| Goodwill                      | 102,581     | —         | 102,581     |
| All other assets              | 176,980     | 50,834    | 227,814     |
| Total Assets                  | \$1,376,394 | \$53,225  | \$1,429,619 |



## 4. Property, Plant and Equipment

| (Thousands of U.S. Dollars)                        | As at June<br>30, 2018 | As at<br>December<br>31, 2017 |
|--|------------------------|-------------------------------|
| Oil and natural gas properties                     |                        |                               |
| Proved   | \$3,014,725            | \$2,810,796                   |
| Unproved   | 423,808                | 464,948                       |
|  | 3,438,533              | 3,275,744                     |
| Other  | 19,086                 | 26,401                        |
|  | 3,457,619              | 3,302,145                     |
| Accumulated depletion, depreciation and impairment | (2,279,423 )           | (2,202,921 )                  |
|  | \$1,178,196            | \$1,099,224                   |

The Company used an average Brent price of \$62.58 per bbl for the purposes of the June 30, 2018 ceiling test calculations (March 31, 2018 - \$56.92, December 31, 2017 - \$54.19).

## 5. Debt and Debt Issuance Costs

The Company's debt at June 30, 2018 and December 31, 2017 was as follows:

| (Thousands of U.S. Dollars)     | As at June<br>30, 2018 | As at<br>December<br>31, 2017 |
|---------------------------------|------------------------|-------------------------------|
| Senior notes                    | \$300,000              | \$—                           |
| Convertible notes               | 115,000                | 115,000                       |
| Revolving credit facility       | —                      | 148,000                       |
| Unamortized debt issuance costs | (16,870 )              | (6,458 )                      |
| Long-term debt                  | \$398,130              | \$256,542                     |

## Senior Notes

On February 15, 2018, Gran Tierra Energy International Holdings Ltd. ("GTEIH"), an indirect, wholly owned subsidiary of the Company, issued \$300 million of 6.25% Senior Notes due 2025 (the "Senior Notes"). The Senior Notes are fully and unconditionally guaranteed by the Company and certain subsidiaries of the Company that guarantee its revolving credit facility. Net proceeds from the sale of the Senior Notes were \$288.1 million, after deducting the initial purchasers' discounts and commission and the offering expenses payable by the Company.

The Senior Notes bear interest at a rate of 6.25% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2018. The Senior Notes will mature on February 15, 2025, unless earlier redeemed or repurchased.

Before February 15, 2022, GTEIH may, at its option, redeem all or a portion of the Senior Notes at 100% of the principal amount plus accrued and unpaid interest and a make-whole premium. Thereafter, the Company may redeem all or a portion of the Senior Notes plus accrued and unpaid interest applicable to the date of the redemption at the following redemption prices: 2022 - 103.125%; 2023 - 101.563%; 2024 and thereafter - 100%.

## Interest Expense

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

| (Thousands of U.S. Dollars)                       | Three Months           |         | Six Months             |         |
|---|------------------------|---------|------------------------|---------|
|   | Ended June 30,<br>2018 | 2017    | Ended June 30,<br>2018 | 2017    |
| Contractual interest and other financing expenses | \$6,532                | \$2,711 | \$11,357               | \$5,201 |
| Amortization of debt issuance costs               | 843                    | 620     | 1,513                  | 1,225   |
|   | \$7,375                | \$3,331 | \$12,870               | \$6,426 |

## 6. Share Capital

On May 1, 2018, Gran Tierra Exchangeco Inc., a subsidiary of the Company, announced that it had established a redemption date of July 5, 2018 in respect of all of its outstanding exchangeable shares. Effective July 5, 2018, all remaining outstanding exchangeable shares of record on July 4, 2018 were acquired for purchase consideration of one share of Gran Tierra common stock, and on July 9, 2018, the Company retired and canceled one share of Special A Voting Stock and one share of Special B Voting Stock, which held voting rights in connection with those exchangeable shares. As a result, no shares of Special A Voting Stock and Special B Voting Stock remain outstanding.

|                                 | Shares of<br>Common<br>Stock | Exchangeable<br>Shares of<br>Gran Tierra<br>Exchangeco<br>Inc. | Exchangeable<br>Shares of<br>Gran Tierra<br>Goldstrike<br>Inc. |
|---------------------------------|------------------------------|--|--|
| Balance, December 31, 2017      | 385,191,042                  | 4,422,776  | 1,688,889  |
| Options exercised               | 319,462                      | —  | —  |
| Shares repurchased and canceled | (469,412 )                   | —  | —  |
| Exchange of exchangeable shares | 4,976,426                    | (3,287,537 )   | (1,688,889 )   |
| Balance, June 30, 2018          | 390,017,518                  | 1,135,239  | —  |

On March 7, 2018, the Company announced that it intended to implement a share repurchase program (the “2018 Program”) through the facilities of the Toronto Stock Exchange (“TSX”) and eligible alternative trading platforms in Canada. Under the 2018 Program, the Company is able to purchase at prevailing market prices up to 19,269,732 shares of Common Stock, representing approximately 5.00% of the issued and outstanding shares of Common Stock as of March 8, 2018. Shares purchased pursuant to 2018 Program will be canceled. The 2018 Program will expire on March 11, 2019, or earlier if the 5.00% share maximum is reached.

## Equity Compensation Awards

The following table provides information about performance stock units (“PSUs”), deferred share units (“DSUs”), restricted stock units (“RSUs”) and stock option activity for the six months ended June 30, 2018:

|                            | PSUs                                    | DSUs                                    | RSUs                                    | Stock Options                                | Weighted<br>Average<br>Exercise<br>Price/Stock<br>Option (\$) |
|----------------------------|---|---|---|--|---|
|                            | Number of<br>Outstanding<br>Share Units | Number of<br>Outstanding<br>Share Units | Number of<br>Outstanding<br>Share Units | Number of<br>Outstanding<br>Stock<br>Options |   |
| Balance, December 31, 2017 | 6,131,951                               | 455,768                                 | 122,090                                 | 8,960,692                                    | 3.65  |
| Granted                    | 3,544,001                               | 131,888                                 | —                                       | 1,996,526                                    | 2.51  |
| Exercised                  | —                                       | —                                       | (120,268 )                              | (319,462 )                                   | 2.65  |
| Forfeited                  | (213,160 )                              | —                                       | (1,822 )                                | (491,475 )                                   | 5.42  |
| Expired                    | —                                       | —                                       | —                                       | (171,854 )                                   | 6.15  |
| Balance, June 30, 2018     | 9,462,792                               | 587,656                                 | —                                       | 9,974,427                                    | 3.33  |

Stock-based compensation expense for the three and six months ended June 30, 2018, was \$6.9 million and \$10.2 million, respectively, and was primarily recorded in general and administrative (“G&A”) expenses (three and six months ended June 30, 2017 - \$2.0 million and \$3.2 million, respectively).

At June 30, 2018, there was \$23.0 million (December 31, 2017 - \$13.7 million) of unrecognized compensation cost related to unvested PSUs and stock options which is expected to be recognized over a weighted average period of 1.8 years.

#### Net Income per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of Common Stock and exchangeable shares issued and outstanding during each period. Diluted net income per share is similarly calculated except that the common shares outstanding for the period is increased using the treasury stock method to reflect the potential dilution that

could occur if outstanding stock awards were vested at the end of the applicable period plus potentially issuable shares on conversion of the convertible notes. Anti-dilutive shares represent potentially dilutive securities that are excluded from the computation of diluted income or loss per share as their impact would be anti-dilutive.

#### Weighted Average Shares Outstanding

|   | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|---|-----------------------------|-------------|---------------------------|-------------|
|   | 2018                        | 2017        | 2018                      | 2017        |
| Weighted average number of common and exchangeable shares outstanding         | 391,054,204                 | 398,585,290 | 391,173,460               | 398,795,023 |
| Shares issuable pursuant to stock options                                     | 4,894,633                   | —           | 2,420,509                 | 625,631     |
| Shares assumed to be purchased from proceeds of stock options                 | (4,308,138 )                | —           | (2,166,348 )              | (604,563 )  |
| Shares issuable pursuant to convertible notes                                 | 35,814,393                  | —           | 35,814,393                | —           |
| Weighted average number of diluted common and exchangeable shares outstanding | 427,455,092                 | 398,585,290 | 427,242,014               | 398,816,091 |

For the three months ended June 30, 2018, 5,240,018 options, on a weighted average basis, (three months ended June 30, 2017 - 10,634,157 options) were excluded from the diluted income (loss) per share calculation as the options were anti-dilutive. For the six months ended June 30, 2018, 7,385,714 options, on a weighted average basis, (six months ended June 30, 2017 - 9,616,800 options) were excluded from the diluted income per share calculation as the options were anti-dilutive. Shares issuable upon conversion of the 5.00% Convertible Notes due 2021 ("Convertible Notes") were dilutive and included in the diluted income per share calculation. For the three and six months ended June 30, 2018, the numerator used in the computation of diluted earnings per share included net income for the period adjusted for interest on convertible debentures and amortization of debt issuance costs of \$1.7 million and \$3.4 million, respectively.

#### 7. Revenue

Most of the Company's revenues are from oil sales at prices which reflect the blended prices received upon shipment by the purchaser at defined sales points or are defined by contract relative to ICE Brent and adjusted for Vasconia crude, quality and transportation discounts each month. For the three and six months ended June 30, 2018, 100% (three and six months ended June 30, 2017 - 100%) of the Company's revenue resulted from oil sales. During the three and six months ended June 30, 2018, quality and transportation discounts were 14% and 15%, respectively, of the ICE Brent price (three and six months ended June 30, 2017 - 21% and 22%, respectively). During the three and six months ended June 30, 2018, the Company's production was sold primarily to three major customers in Colombia (three and six months ended June 30, 2017 - four).

As at June 30, 2018, accounts receivable included \$4.8 million of accrued sales revenue which related to June 2018 production (December 31, 2017 - \$11.1 million which related to December 31, 2017 production).

#### 8. Taxes

The Company's effective tax rate was 58% in the six months ended June 30, 2018, compared with 84% in the comparative period in 2017. Current income tax expense was higher in the six months ended June 30, 2018, compared with the corresponding period in 2017, primarily as a result of higher taxable income in Colombia. The deferred income tax expense of \$36.7 million for the six months ended June 30, 2018, was primarily due to excess tax depreciation compared with accounting depreciation in Colombia.

For the six months ended June 30, 2018, the difference between the effective tax rate of 58% and the 21% U.S. statutory rate was primarily due to an increase to the impact of foreign taxes, valuation allowance, stock-based compensation, foreign currency translation and non-deductible third party royalty in Colombia.

For the comparative period in 2017, the effective tax rate differed from the U.S. statutory rate of 35% primarily due to an increase in the valuation allowance, which was largely attributable to losses incurred in the United States, Brazil and Colombia, as well as the impact of a non-deductible third-party royalty in Colombia, foreign and local taxes, and stock-based compensation. These items were partially offset by foreign currency translation adjustments and other permanent differences.

## 9. Contingencies

The Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) ("ANH") and Gran Tierra are engaged in ongoing discussions regarding the interpretation of whether certain transportation and related costs are eligible to be deducted in the calculation of an additional royalty (the "HPR royalty"). Based on the Company's understanding of the ANH's position, the estimated compensation which would be payable if the ANH's interpretation is correct could be up to \$52.8 million as at June 30, 2018. At this time no amount has been accrued in the interim unaudited condensed consolidated financial statements as Gran Tierra does not consider it probable that a loss will be incurred.

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

### Letters of credit and other credit support

At June 30, 2018, the Company had provided letters of credit and other credit support totaling \$69.8 million (December 31, 2017 - \$76.0 million) as security relating to work commitment guarantees contained in exploration contracts and other capital or operating requirements.

## 10. Financial Instruments and Fair Value Measurement

### Financial Instruments

At June 30, 2018, the Company's financial instruments recognized in the balance sheet consisted of: cash and cash equivalents; restricted cash and cash equivalents; accounts receivable; investments; derivatives, accounts payable and accrued liabilities, long-term debt and equity compensation award liability.

### Fair Value Measurement

The fair value of certain investments, derivatives and equity compensation awards (PSU and DSU) liabilities are remeasured at the estimated fair value at the end of each reporting period.

The fair value of the short-term portion of the Company's investment in PetroTal Corp. ("PetroTal") (formerly Sterling Resources Ltd.) was estimated using quoted prices at June 30, 2018 and the foreign exchange rate at that time. The fair value of the long-term portion of the investment restricted by escrow conditions was estimated using observable and unobservable inputs; factors that were evaluated included quoted market prices, precedent comparable transactions, risk-free rate, measures of market risk volatility, estimates of the Company's and PetroTal's costs of capital and quotes from third parties.

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

The fair value of the PSU liability was estimated based on option pricing model using inputs such as quoted market prices in an active market, and PSU performance factors. The fair value of the DSU liabilities was estimated based on quoted market prices in an active market.



The fair value of the Company's investment in PetroTal, derivatives and PSU and DSU liabilities at June 30, 2018, and December 31, 2017, was as follows:

| (Thousands of U.S. Dollars)                                 | As at<br>June 30,<br>2018 | As at<br>December<br>31, 2017 |
|---|---------------------------|-------------------------------|
| Investment in PetroTal shares - current and long-term       | \$47,956                  | \$ 44,202                     |
| Foreign currency derivative asset                           | 930                       | 302                           |
|   | \$48,886                  | \$ 44,504                     |
| Commodity price derivative liability                        | \$27,157                  | \$ 21,151                     |
| Equity compensation award liability - current and long-term | 21,077                    | 11,430                        |
|   | \$48,234                  | \$ 32,581                     |

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

| (Thousands of U.S. Dollars)              | Three Months<br>Ended June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2018                           | 2017      | 2018                         | 2017      |
| Commodity price derivative loss (gain)   | \$14,461                       | \$(1,545) | \$19,455                     | \$(6,247) |
| Foreign currency derivatives loss (gain) | 1,945                          | 98        | (2,024 )                     | (639 )    |
| Investment gain                          | (11,638 )                      | —         | (5,717 )                     | —         |
| Financial instruments loss (gain)        | \$4,768                        | \$(1,447) | \$11,714                     | \$(6,886) |

Investment gain for the three and six months ended June 30, 2018, related to the fair value gain on the PetroTal shares Gran Tierra received or subscribed for in connection with the sale of its Peru business unit in December 2017. For the three and six months ended June 30, 2018, this investment gain was unrealized.

Financial instruments not recorded at fair value include the Senior Notes and the Convertible Notes. At June 30, 2018, the carrying amounts of the Senior Notes and the Convertible Notes were \$288.6 million and \$111.5 million, respectively, which represented the aggregate principal amount less unamortized debt issuance costs, and the fair values were \$282.0 million and \$143.8 million, respectively. The fair value of long-term restricted cash and cash equivalents and the revolving credit facility approximated their carrying value because interest rates are variable and reflective of market rates. The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

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

At June 30, 2018, the fair value of the current portion of the investment and DSU liability was determined using Level 1 inputs, the fair value of derivatives and PSUs was determined using Level 2 inputs and the fair value of the long-term portion of the investment restricted by escrow conditions was determined using Level 3 inputs. The table below presents the fair value of the long-term portion of the investment:

| Six<br>Months | Year<br>Ended |
|---------------|---------------|
|---------------|---------------|

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| (Thousands of U.S. Dollars)                            | Ended            |                      |
|--|------------------|----------------------|
|  | June 30,<br>2018 | December<br>31, 2017 |
| Opening balance, investment - long-term                | \$19,147         | \$ —                 |
| Acquisition  | —                | 19,091               |
| Transfer from long-term (Level 3) to current (Level 1) | (4,787 )         | —                    |
| Unrealized valuation gain                              | 2,528            | 56                   |
| Unrealized foreign exchange loss                       | (1,586 )         | —                    |
| Closing balance, investment - long-term                | \$15,302         | \$ 19,147            |

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

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

#### Commodity Price Derivatives

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

At June 30, 2018, the Company had outstanding commodity price derivative positions as follows:

| Period and type of instrument                     | Volume,<br>bopd | Reference | Sold                             | Purchased                        |
|---|-----------------|-----------|----------------------------------|----------------------------------|
|   |                 |           | Swap                             | Call                             |
|   |                 |           | (\$/bbl,<br>Weighted<br>Average) | (\$/bbl,<br>Weighted<br>Average) |
| Swaps: July 1, to December 31, 2018               | 5,000           | ICE Brent | \$ 55.90                         | n/a                              |
| Participating Swaps: July 1, to December 31, 2018 | 5,000           | ICE Brent | \$ 52.50                         | \$ 56.11                         |

The Company does not have any outstanding commodity price derivative positions relating to 2019.

#### Foreign Currency Derivatives

The Company utilizes foreign currency derivatives to manage the variability in cash flows associated with the Company's forecasted Colombian peso ("COP") denominated expenses. At June 30, 2018, the Company had outstanding foreign currency derivative positions as follows:

| Period and type of instrument | Amount<br>Hedged<br>(Millions of<br>COP) | U.S. Dollar<br>Equivalent<br>Amount<br>Hedged<br>(Thousands<br>of U.S. | Reference | Purchased     | Sold Put                      |
|-------------------------------|--|--|-----------|---------------|-------------------------------|
|                               |  |  |           | Call<br>(COP) | (COP,<br>Weighted<br>Average) |

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|  |        |                         |     |       |       |  |
|--|--------|-------------------------|-----|-------|-------|--|
|  |        | Dollars) <sup>(1)</sup> |     |       |       |  |
| Collars: July 1, 2018 to December 31, 2018 | 87,000 | 29,685                  | COP | 3,000 | 3,107 |  |

<sup>(1)</sup> At June 30, 2018 foreign exchange rate.

## 11. Supplemental Cash Flow Information

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

| (Thousands of U.S. Dollars)   | As at June 30, |          | As at December 31, |          |
|---|----------------|----------|--------------------|----------|
|   | 2018           | 2017     | 2017               | 2016     |
| Cash and cash equivalents   | \$125,807      | \$53,310 | \$12,326           | \$25,175 |
| Restricted cash and cash equivalents - current  | 2,836          | 5,844    | 11,787             | 8,322    |
| Restricted cash and cash equivalents - long-term (included in other long-term assets) | 2,282          | 9,897    | 2,565              | 9,770    |
|   | \$130,925      | \$69,051 | \$26,678           | \$43,267 |

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

| (Thousands of U.S. Dollars)                                     | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2018                      | 2017       |
| Accounts receivable and other long-term assets                  | \$(11,723)                | \$11,024   |
| Derivatives   | 3,431                     | —          |
| Inventory   | (3,054)                   | (47)       |
| Prepays   | (301)                     | 2,190      |
| Accounts payable and accrued and other long-term liabilities    | 971                       | (6,179)    |
| Taxes receivable and payable                                    | (27,318)                  | (35,100)   |
| Net changes in assets and liabilities from operating activities | \$(37,994)                | \$(28,112) |

The following table provides additional supplemental cash flow disclosures:

| (Thousands of U.S. Dollars)   | Six Months Ended June 30, |          |
|---|---------------------------|----------|
|   | 2018                      | 2017     |
| Non-cash investing activities:  |                           |          |
| Net liabilities related to property, plant and equipment, end of period | \$62,009                  | \$56,044 |

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

The following discussion of our financial condition and results of operations should be read in conjunction with the "Financial Statements" as set out in Part I, Item 1 of this Quarterly Report on Form 10-Q as well as the "Financial Statements and Supplementary Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Items 8 and 7, respectively, of our 2017 Annual Report on Form 10-K, filed with the SEC on February 27, 2018. Please see the cautionary language at the beginning of this Quarterly Report on Form 10-Q regarding the identification of and risks relating to forward-looking statements, as well as Part I, Item 1A "Risk Factors" in our 2017 Annual Report on Form 10-K.

### Financial and Operational Highlights

#### Key Highlights for the second quarter of 2018<sup>(1)</sup>

Achieved a new company milestone: record Colombia working interest production before royalties of 35,400 BOEPD, 18% higher compared with 30,098 BOEPD in the second quarter of 2017. Production increased largely because of production from development activities in the Acordionero Field.

The quarter's Colombia production was also up 57% from second quarter 2015 when the strategy to refocus Gran Tierra on Colombia began, an annual growth rate of 16%

Since acquiring the Acordionero field in the Middle Magdalena Valley ("MMV") in August 2016, we have increased production 274% to a record high average rate during the quarter of 17,710 bopd (14,076 bopd NAR). From the acquisition date of August 23, 2016, until June 30, 2018, the MMV assets have generated \$327 million in oil and natural gas sales

Production NAR was 28,198 BOEPD, 12% higher than the second quarter of 2017.

Continued significant exposure to oil price strength with oil representing 100% of our production

Oil and natural gas sales volumes were 27,902 BOEPD, 11% higher than the second quarter of 2017. The quarter's increase in oil and gas sales volumes was driven by the production increase (5,302 bopd), partially offset by higher royalties (2,383 bopd) due to higher oil prices and a change in inventories (149 bopd).

Net income was \$20.3 million compared with net loss of \$6.8 million in the second quarter of 2017. Net loss in the comparative period included the loss on sale of Brazil business unit.

Funds flow from operations<sup>(2)</sup> increased by 86% to \$94.5 million compared with the second quarter of 2017, while the Brent price increased only 47% from the second quarter of 2017.

Active quarter with capital expenditures of \$84.4 million. Funds flow from operations exceeded capital expenditures by \$10.2 million.

Oil and gas sales per BOE were \$64.37, 60% higher than the second quarter of 2017.

Operating netback<sup>(2)</sup> per BOE was \$47.99, 85% higher compared with the second quarter of 2017.

Operating expenses per BOE were \$13.81, 21% higher compared with the second quarter of 2017 as a result of payments triggered by renegotiating our field operating agreements, power generation costs, equipment rental and accelerated maintenance costs, mainly in the Acordionero field, in the quarter.

Quality and transportation discount was \$10.53 per BOE compared with \$10.74 per BOE in the second quarter of 2017; this \$0.21 per BOE reduction resulted from optimization of transportation routes and narrowing of differentials

Transportation expenses per BOE were \$2.57, 7% lower compared with the second quarter of 2017. The decrease was due to the increased use of alternative transportation routes, which had lower costs per BOE.

General and administrative ("G&A") expenses before stock-based compensation per BOE decreased by 18% to \$2.60 per BOE compared with the second quarter of 2017.

Exited the quarter with \$125.8 million of cash and cash equivalents.

<sup>(1)</sup> Except for net income, funds flow from operations and G&A expenses, all numbers and comparisons above are based on Colombia only, excluding Brazil which was sold in 2017.

(2) Funds flow from operations and operating netback are non-GAAP measures which do not have any standardized meaning prescribed under GAAP. Refer to the non-GAAP measures disclosure below for a definition and reconciliation of these measures.

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| (Thousands of U.S. Dollars, unless otherwise indicated)                         | Three Months Ended June 30, |           |          | Three Months Ended March 31, | Six Months Ended June 30, |           |          |
|---|-----------------------------|-----------|----------|------------------------------|---------------------------|-----------|----------|
|   | 2018                        | 2017      | % Change | 2018                         | 2018                      | 2017      | % Change |
| <b>Average Daily Volumes (BOEPD)</b>  |                             |           |          |                              |                           |           |          |
| <b>Consolidated</b>   |                             |           |          |                              |                           |           |          |
| Working Interest Production Before Royalties                                    | 35,400                      | 31,437    | 13       | 35,075                       | 35,239                    | 30,663    | 15       |
| Royalties   | (7,202)                     | (5,014)   | 44       | (6,886)                      | (7,045)                   | (5,051)   | 39       |
| Production NAR  | 28,198                      | 26,423    | 7        | 28,189                       | 28,194                    | 25,612    | 10       |
| Increase in Inventory   | (296)                       | (140)     | 111      | (986)                        | (639)                     | (61)      | 948      |
| Sales <sup>(1)</sup>  | 27,902                      | 26,283    | 6        | 27,203                       | 27,555                    | 25,551    | 8        |
| <b>Colombia</b>   |                             |           |          |                              |                           |           |          |
| Working Interest Production Before Royalties                                    | 35,400                      | 30,098    | 18       | 35,075                       | 35,239                    | 29,294    | 20       |
| Royalties   | (7,202)                     | (4,819)   | 49       | (6,886)                      | (7,045)                   | (4,843)   | 45       |
| Production NAR  | 28,198                      | 25,279    | 12       | 28,189                       | 28,194                    | 24,451    | 15       |
| Increase in Inventory   | (296)                       | (147)     | 101      | (986)                        | (639)                     | (70)      | 813      |
| Sales <sup>(1)</sup>  | 27,902                      | 25,132    | 11       | 27,203                       | 27,555                    | 24,381    | 13       |
| Net Income (Loss)   | \$20,300                    | \$(6,807) | 398      | \$17,861                     | \$38,161                  | \$5,964   | 540      |
| <b>Operating Netback</b>  |                             |           |          |                              |                           |           |          |
| Oil and Natural Gas Sales   | \$163,446                   | \$96,128  | 70       | \$138,228                    | \$301,674                 | \$190,787 | 58       |
| Operating Expenses  | (35,059)                    | (27,208)  | 29       | (26,265)                     | (61,324)                  | (51,145)  | 20       |
| Transportation Expenses   | (6,522)                     | (6,492)   | —        | (6,997)                      | (13,519)                  | (13,434)  | 1        |
| Operating Netback <sup>(2)</sup>  | \$121,865                   | \$62,428  | 95       | \$104,966                    | \$226,831                 | \$126,208 | 80       |
| G&A Expenses Before Stock-Based Compensation                                    | \$6,604                     | \$7,610   | (13)     | \$7,982                      | \$14,586                  | \$15,173  | (4)      |
| G&A Stock-Based Compensation  | 6,609                       | 1,903     | 247      | 3,178                        | 9,787                     | 3,052     | 221      |
| General and Administrative ("G&A") Expenses, Including Stock-Based Compensation | \$13,213                    | \$9,513   | 39       | \$11,160                     | \$24,373                  | \$18,225  | 34       |
| EBITDA <sup>(2)</sup>   | \$102,278                   | \$41,634  | 146      | \$88,588                     | \$190,866                 | \$103,172 | 85       |
| Funds Flow From Operations <sup>(2)</sup>                                       | \$94,549                    | \$50,920  | 86       | \$74,748                     | \$169,297                 | \$95,946  | 76       |
| Capital Expenditures  | \$84,394                    | \$57,865  | 46       | \$72,694                     | \$157,088                 | \$104,025 | 51       |



| (Thousands of U.S. Dollars) | As at         |                   |          |
|-----------------------------|---------------|-------------------|----------|
|                             | June 30, 2018 | December 31, 2017 | % Change |
| Cash and Cash Equivalents   | \$ 125,807    | \$ 12,326         | 921      |
| Revolving Credit Facility   | \$—           | \$ 148,000        | (100 )   |
| Senior Notes                | \$ 300,000    | \$ —              | —        |
| Convertible Notes           | \$ 115,000    | \$ 115,000        | —        |

(1) Sales volumes represent production NAR adjusted for inventory changes.

(2) Non-GAAP measures

Operating netback, EBITDA and funds flow from operations are non-GAAP measures which do not have any standardized meaning prescribed under GAAP. Management views these measures as financial performance measures. Investors are cautioned that these measures should not be construed as alternatives to net income or loss or other measures of financial performance as determined in accordance with GAAP. Our method of calculating these measures may differ from other companies and, accordingly, may not be comparable to similar measures used by other companies. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure.

Operating netback, as presented, is defined as oil and natural gas sales less operating and transportation expenses. Management believes that operating netback is a useful supplemental measure for management and investors to analyze financial performance and provides an indication of the results generated by our principal business activities prior to the consideration of other income and expenses. A reconciliation from oil and natural gas sales to operating netback is provided in the table above.

EBITDA, as presented, is defined as net income or loss adjusted for depletion, depreciation and accretion ("DD&A") expenses, interest expense and income tax expense. Management uses this supplemental measure to analyze performance and income or loss generated by our principal business activities prior to the consideration of how non-cash items affect that income or loss, and believes that this financial measure is useful supplemental information for investors to analyze our performance and our financial results. A reconciliation from net loss to EBITDA is as follows:

| (Thousands of U.S. Dollars)                          | Three Months Ended June 30, |           | Three Months Ended March 31, | Six Months Ended June 30, |          |
|--|-----------------------------|-----------|------------------------------|---------------------------|----------|
|  | 2018                        | 2017      | 2018                         | 2018                      | 2017     |
| Net income (loss)                                    | \$20,300                    | \$(6,807) | \$ 17,861                    | \$38,161                  | \$ 5,964 |
| Adjustments to reconcile net income (loss) to EBITDA |                             |           |                              |                           |          |
| DD&A expenses  | 46,607                      | 31,813    | 39,461                       | 86,068                    | 58,689   |
| Interest expense                                     | 7,375                       | 3,331     | 5,495                        | 12,870                    | 6,426    |
| Income tax expense                                   | 27,996                      | 13,297    | 25,771                       | 53,767                    | 32,093   |
| EBITDA (non-GAAP)                                    | 102,278                     | 41,634    | 88,588                       | 190,866                   | 103,172  |

Funds flow from operations, as presented, is defined as net income or loss adjusted for DD&A expenses, deferred tax expense, stock-based compensation expense, amortization of debt issuance costs, cash settlement of RSUs, unrealized foreign exchange gains and losses, financial instruments gains or losses, cash settlement of financial instruments and loss on sale. Management uses this financial measure to analyze performance and income or loss generated by our principal business activities prior to the consideration of how non-cash items affect that income or loss, and believes that this financial measure is also useful supplemental information for investors to analyze performance and our financial results. A reconciliation from net income or loss to funds flow from operations is as follows:

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| (Thousands of U.S. Dollars)  | Three Months Ended June 30, |           | Three Months Ended March 31, | Six Months Ended June 30, |          |
|--|-----------------------------|-----------|------------------------------|---------------------------|----------|
|  | 2018                        | 2017      | 2018                         | 2018                      | 2017     |
| Net income (loss)  | \$20,300                    | \$(6,807) | \$17,861                     | 38,161                    | \$5,964  |
| Adjustments to reconcile net income (loss) to funds flow from operations |                             |           |                              |                           |          |
| DD&A expenses  | 46,607                      | 31,813    | 39,461                       | 86,068                    | 58,689   |
| Deferred tax expense   | 23,169                      | 11,525    | 13,482                       | 36,651                    | 22,904   |
| Stock-based compensation expense   | 6,893                       | 1,980     | 3,309                        | 10,202                    | 3,183    |
| Amortization of debt issuance costs                                      | 843                         | 620       | 670                          | 1,513                     | 1,225    |
| Cash settlement of RSUs  | (240)                       | (183)     | (120)                        | (360)                     | (501)    |
| Unrealized foreign exchange loss (gain)                                  | 1,583                       | 3,895     | (1,044)                      | 539                       | 1,076    |
| Financial instruments loss (gain)  | 4,768                       | (1,447)   | 6,946                        | 11,714                    | (6,886)  |
| Cash settlement of financial instruments                                 | (9,666)                     | 448       | (5,817)                      | (15,483)                  | 1,216    |
| Loss on sale   | 292                         | 9,076     | —                            | 292                       | 9,076    |
| Funds flow from operations (non-GAAP)                                    | \$94,549                    | \$50,920  | \$74,748                     | \$169,297                 | \$95,946 |

Additional Operational Results

| (Thousands of U.S. Dollars)                  | Three Months Ended June 30, |          |          | Three Months Ended March 31, | Six Months Ended June 30, |           |          |
|--|-----------------------------|----------|----------|------------------------------|---------------------------|-----------|----------|
|  | 2018                        | 2017     | % Change | 2018                         | 2018                      | 2017      | % Change |
| Oil and natural gas sales                    | \$163,446                   | \$96,128 | 70       | \$138,228                    | \$301,674                 | \$190,787 | 58       |
| Operating expenses                           | 35,059                      | 27,208   | 29       | 26,265                       | 61,324                    | 51,145    | 20       |
| Transportation expenses                      | 6,522                       | 6,492    | —        | 6,997                        | 13,519                    | 13,434    | 1        |
| Operating netback <sup>(1)</sup>             | 121,865                     | 62,428   | 95       | 104,966                      | 226,831                   | 126,208   | 80       |
| DD&A expenses                                | 46,607                      | 31,813   | 47       | 39,461                       | 86,068                    | 58,689    | 47       |
| G&A expenses before stock-based compensation | 6,604                       | 7,610    | (13)     | 7,982                        | 14,586                    | 15,173    | (4)      |
| G&A stock-based compensation expense         | 6,609                       | 1,903    | 247      | 3,178                        | 9,787                     | 3,052     | 221      |
| Equity tax                                   | —                           | —        | —        | —                            | —                         | 1,224     | (100)    |
| Foreign exchange loss (gain)                 | 1,924                       | 3,897    | (51)     | (942)                        | 982                       | 2,050     | (52)     |
| Financial instruments loss (gain)            | 4,768                       | (1,447)  | 430      | 6,946                        | 11,714                    | (6,886)   | 270      |
| Interest expense                             | 7,375                       | 3,331    | 121      | 5,495                        | 12,870                    | 6,426     | 100      |
|  | 73,887                      | 47,107   | 57       | 62,120                       | 136,007                   | 79,728    | 71       |
| Loss on sale                                 | (292)                       | (9,076)  | (97)     | —                            | (292)                     | (9,076)   | (97)     |
| Interest income                              | 610                         | 245      | 149      | 786                          | 1,396                     | 653       | 114      |
| Income before income taxes                   | 48,296                      | 6,490    | 644      | 43,632                       | 91,928                    | 38,057    | 142      |

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|                             |          |           |     |          |          |         |     |
|-----------------------------|----------|-----------|-----|----------|----------|---------|-----|
| Current income tax expense  | 4,827    | 1,772     | 172 | 12,289   | 17,116   | 9,189   | 86  |
| Deferred income tax expense | 23,169   | 11,525    | 101 | 13,482   | 36,651   | 22,904  | 60  |
|                             | 27,996   | 13,297    | 111 | 25,771   | 53,767   | 32,093  | 68  |
| Net income (loss)           | \$20,300 | \$(6,807) | 398 | \$17,861 | \$38,161 | \$5,964 | 540 |

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|  |         |          |      |         |         |         |       |
|--|---------|----------|------|---------|---------|---------|-------|
| Sales Volumes (NAR)                                      |         |          |      |         |         |         |       |
| Total sales volumes, BOEPD                               | 27,902  | 26,283   | 6    | 27,203  | 27,555  | 25,551  | 8     |
| Average Prices   |         |          |      |         |         |         |       |
| Oil and NGL's per bbl                                    | \$64.50 | \$40.44  | 59   | \$56.63 | \$60.64 | \$41.65 | 46    |
| Natural gas per Mcf                                      | \$2.26  | \$2.52   | (10) | \$2.91  | \$2.67  | \$1.91  | 40    |
| Brent Price per bbl                                      | \$74.90 | \$50.92  | 47   | \$67.18 | \$71.04 | \$52.79 | 35    |
| Consolidated Results of Operations per BOE Sales Volumes |         |          |      |         |         |         |       |
| NAR  |         |          |      |         |         |         |       |
| Oil and natural gas sales                                | \$64.37 | \$40.19  | 60   | \$56.46 | \$60.49 | \$41.25 | 47    |
| Operating expenses                                       | 13.81   | 11.38    | 21   | 10.73   | 12.30   | 11.06   | 11    |
| Transportation expenses                                  | 2.57    | 2.71     | (5)  | 2.86    | 2.71    | 2.90    | (7)   |
| Operating netback <sup>(1)</sup>                         | 47.99   | 26.10    | 84   | 42.87   | 45.48   | 27.29   | 67    |
| DD&A expenses  | 18.36   | 13.30    | 38   | 16.12   | 17.26   | 12.69   | 36    |
| G&A expenses before stock-based compensation             | 2.60    | 3.18     | (18) | 3.26    | 2.92    | 3.28    | (11)  |
| G&A stock-based compensation expense                     | 2.60    | 0.80     | 225  | 1.30    | 1.96    | 0.66    | 197   |
| Equity tax   | —       | —        | —    | —       | —       | 0.26    | (100) |
| Foreign exchange loss (gain)                             | 0.76    | 1.63     | (53) | (0.38)  | 0.20    | 0.44    | (55)  |
| Financial instruments loss (gain)                        | 1.88    | (0.60)   | 413  | 2.84    | 2.35    | (1.49)  | 258   |
| Interest expense   | 2.90    | 1.39     | 109  | 2.24    | 2.58    | 1.39    | 86    |
|  | 29.10   | 19.70    | 48   | 25.38   | 27.27   | 17.23   | 58    |
| Loss on sale   | (0.12)  | (3.79)   | (97) | —       | (0.06)  | (1.96)  | (97)  |
| Interest income  | 0.24    | 0.10     | 140  | 0.32    | 0.28    | 0.14    | 100   |
| Income before income taxes                               | 19.01   | 2.71     | 601  | 17.81   | 18.43   | 8.24    | 124   |
| Current income tax expense                               | 1.90    | 0.74     | 157  | 5.02    | 3.43    | 1.99    | 72    |
| Deferred income tax expense                              | 9.12    | 4.82     | 89   | 5.51    | 7.35    | 4.95    | 48    |
|  | 11.02   | 5.56     | 98   | 10.53   | 10.78   | 6.94    | 55    |
| Net income (loss)  | \$7.99  | \$(2.85) | 380  | \$7.28  | \$7.65  | \$1.30  | 488   |

<sup>(1)</sup> Operating netback is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition and reconciliation of this measure.

## Oil and Gas Production and Sales Volumes, BOEPD

|  | Three<br>Months<br>Ended<br>June 30,<br>2018 | Three Months Ended June<br>30, 2017 |        |          |   |
|--|--|-------------------------------------|--------|----------|---|
|  | Total  | Colombia                            | Brazil | Total    |   |
| Average Daily Volumes (BOEPD)                                |  |                                     |        |          |   |
| Working Interest Production Before Royalties                 | 35,400                                       | 30,098                              | 1,339  | 31,437   |   |
| Royalties  | (7,202 )                                     | (4,819 )                            | (195 ) | (5,014 ) |   |
| Production NAR   | 28,198                                       | 25,279                              | 1,144  | 26,423   |   |
| (Increase) Decrease in Inventory                             | (296 )                                       | (147 )                              | 7      | (140 )   |   |
| Sales  | 27,902                                       | 25,132                              | 1,151  | 26,283   |   |
| Royalties, % of Working Interest Production Before Royalties | 20   | % 16                                | % 15   | % 16     | % |

|  | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six Months Ended June<br>30, 2017 |        |          |   |
|--|--|-----------------------------------|--------|----------|---|
|  | Total                                      | Colombia                          | Brazil | Total    |   |
| Average Daily Volumes (BOEPD)                                |  |                                   |        |          |   |
| Working Interest Production Before Royalties                 | 35,239                                     | 29,294                            | 1,369  | 30,663   |   |
| Royalties  | (7,045 )                                   | (4,843 )                          | (208 ) | (5,051 ) |   |
| Production NAR   | 28,194                                     | 24,451                            | 1,161  | 25,612   |   |
| (Increase) Decrease in Inventory                             | (639 )                                     | (70 )                             | 9      | (61 )    |   |
| Sales  | 27,555                                     | 24,381                            | 1,170  | 25,551   |   |
| Royalties, % of Working Interest Production Before Royalties | 20   | % 17                              | % 15   | % 16     | % |

Oil and gas production NAR for the three and six months ended June 30, 2018 increased by 7% to 28,198 and by 10% to 28,194 BOEPD compared with 26,423 and 25,612 BOEPD, respectively, in the corresponding periods of 2017.

Colombian oil and gas production NAR for the three and six months ended June 30, 2018 increased by 12% and 15%, respectively, compared with the corresponding periods of 2017. The increase in production was a result of successful drilling and a workover campaign in the Acordionero and Costayaco Fields and the Vonu-1 exploration well. Working interest production before royalties from the Acordionero Field averaged 17,710 bopd before royalties (14,076 bopd NAR) during the three months ended June 30, 2018 compared with 8,362 bopd in the corresponding period of 2017, a 112% increase. Acordionero Field production increased 959 bopd before royalties from the three months ended March 31, 2018. During the second quarter of 2018, four wells were brought on production. Production was negatively impacted by two Electronic Submersible Pumps ("ESPs") failures in Acordionero and one ESP failure in Costayaco.

Royalties as a percentage of production for the three and six months ended June 30, 2018 increased compared with the corresponding periods of 2017 commensurate with the increase in oil prices due to price sensitive royalties payable in Colombia, higher API in the Acordionero Field and this field reaching the threshold for the High Price Royalties.

## Operating Netbacks

|                                  | Three<br>Months<br>Ended<br>June 30,<br>2018 | Three Months Ended June 30,<br>2017 |          |           |
|----------------------------------|--|-------------------------------------|----------|-----------|
| (Thousands of U.S. Dollars)      | Total  | Colombia                            | Brazil   | Total     |
| Oil and Natural Gas Sales        | \$ 163,446                                   | \$ 91,905                           | \$ 4,223 | \$ 96,128 |
| Transportation Expenses          | (6,522 )                                     | (6,319 )                            | (173 )   | (6,492 )  |
|                                  | 156,924                                      | 85,586                              | 4,050    | 89,636    |
| Operating Expenses               | (35,059 )                                    | (26,192 )                           | (1,016 ) | (27,208 ) |
| Operating Netback <sup>(1)</sup> | \$ 121,865                                   | \$ 59,394                           | \$ 3,034 | \$ 62,428 |

## U.S. Dollars Per BOE Sales Volumes NAR

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Brent   | \$ 74.90 | \$ 50.92 | \$ 50.92 | \$ 50.92 |
| Vasconia, Quality and Transportation Discounts        | (10.53 ) | (10.74 ) | (10.62 ) | (10.73 ) |
| Average Realized Price                                | 64.37    | 40.18    | 40.30    | 40.19    |
| Transportation Expenses                               | (2.57 )  | (2.76 )  | (1.65 )  | (2.71 )  |
| Average Realized Price Net of Transportation Expenses | 61.80    | 37.42    | 38.65    | 37.48    |
| Operating Expenses                                    | (13.81 ) | (11.45 ) | (9.69 )  | (11.38 ) |
| Operating Netback <sup>(1)</sup>                      | \$ 47.99 | \$ 25.97 | \$ 28.96 | \$ 26.10 |

|                                  | Six<br>Months<br>Ended<br>June 30,<br>2018 | Six Months Ended June 30,<br>2017 |          |            |
|----------------------------------|--|-----------------------------------|----------|------------|
| (Thousands of U.S. Dollars)      | Total                                      | Colombia                          | Brazil   | Total      |
| Oil and Natural Gas Sales        | \$ 301,674                                 | \$ 182,369                        | \$ 8,418 | \$ 190,787 |
| Transportation Expenses          | (13,519 )                                  | (13,084 )                         | (350 )   | (13,434 )  |
|                                  | 288,155                                    | 169,285                           | 8,068    | 177,353    |
| Operating Expenses               | (61,324 )                                  | (49,348 )                         | (1,797 ) | (51,145 )  |
| Operating Netback <sup>(1)</sup> | \$ 226,831                                 | \$ 119,937                        | \$ 6,271 | \$ 126,208 |

## U.S. Dollars Per BOE Sales Volumes NAR

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Brent   | \$ 71.04 | \$ 52.79 | \$ 52.79 | \$ 52.79 |
| Vasconia, Quality and Transportation Discounts        | (10.55 ) | (11.46 ) | (13.03 ) | (11.54 ) |
| Average Realized Price                                | 60.49    | 41.33    | 39.76    | 41.25    |
| Transportation Expenses                               | (2.71 )  | (2.96 )  | (1.65 )  | (2.90 )  |
| Average Realized Price Net of Transportation Expenses | 57.78    | 38.37    | 38.11    | 38.35    |
| Operating Expenses                                    | (12.30 ) | (11.18 ) | (8.49 )  | (11.06 ) |
| Operating Netback <sup>(1)</sup>                      | \$ 45.48 | \$ 27.19 | \$ 29.62 | \$ 27.29 |

<sup>(1)</sup> Operating netback is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition and reconciliation of this measure.





Oil and gas sales for the three and six months ended June 30, 2018 increased by 70% to \$163.4 million and 58% to \$301.7 million, respectively, compared with the corresponding periods of 2017. Compared with the prior quarter, oil and gas sales increased by 18%. The increases were due to increased sales volumes and realized oil prices. The following table shows the effect of changes in realized prices and sales volumes on our oil and gas sales for the three and six months ended June 30, 2018 compared with the prior quarter and the corresponding periods in 2017:

|  | Second<br>Quarter<br>2018<br>Compared<br>with First<br>Quarter<br>2018 | Second<br>Quarter<br>2018<br>Compared<br>with<br>Second<br>Quarter<br>2017 | Six<br>Months<br>Ended,<br>June 30,<br>2018<br>Compared<br>with Six<br>Months<br>Ended<br>June 30,<br>2017 |
|--|--|--|--|
| Oil and natural gas sales for the comparative period     | \$ 138,228   | \$ 96,128  | \$ 190,787   |
| Realized sales price increase effect                     | 20,096   | 61,401   | 95,920   |
| Sales volume increase effect                             | 5,122  | 5,917  | 14,967   |
| Oil and natural gas sales for period ended June 30, 2018 | \$ 163,446   | \$ 163,446   | \$ 301,674   |

Average realized prices for the three and six months ended June 30, 2018 increased by 60% and 47%, respectively, compared with the corresponding periods of 2017. Compared with the prior quarter, average realized prices increased by 14%. The increases were commensurate with increases in benchmark oil prices and lower quality and transportation discounts. Average Brent oil prices for the three and six months ended June 30, 2018 increased by 47% and 35%, respectively, compared with the corresponding periods of 2017 and increased by 11% compared with the prior quarter.

We have options to sell our oil through multiple pipelines and trucking routes. Each transportation route has varying effects on realized sales prices and transportation expenses. We focus on maximizing operating netback. The following table shows the percentage of oil volumes we sold in Colombia using each transportation method for the three and six months ended June 30, 2018 and 2017 and the prior quarter:

|                                       | Three<br>Months<br>Ended June<br>30,<br>2018 |       | Three<br>Months<br>Ended<br>March<br>31,<br>2018 |       | Six Months<br>Ended June<br>30,<br>2017 |       |
|---------------------------------------|--|-------|--|-------|---|-------|
| Volume transported through pipeline   | 9 %  | 20 %  | 9 %  | 9 %   | 22 %                                    | 22 %  |
| Volume sold at wellhead               | 41 %   | 52 %  | 52 %   | 42 %  | 52 %                                    | 52 %  |
| Volume not sold at wellhead, trucking | 50 %   | 28 %  | 39 %   | 49 %  | 26 %                                    | 26 %  |
|                                       | 100 %  | 100 % | 100 %  | 100 % | 100 %                                   | 100 % |

Volumes transported not sold at the wellhead receive higher realized prices, but incur higher transportation expenses. Volumes sold at the wellhead have the opposite effect of lower realized prices, offset by lower transportation expenses.

Total Company transportation expenses for the three and six months ended June 30, 2018 of \$6.5 million and \$13.5 million, respectively, were comparable with the corresponding periods of 2017. On a per BOE basis, transportation expenses for the three and six months ended June 30, 2018 decreased by 5% to \$2.57, and by 7% to \$2.71, from \$2.71 and \$2.90, respectively, compared with the corresponding periods of 2017. The decrease was primarily due to the use of alternative transportation routes, which had lower costs per BOE.

Colombian transportation expenses for the three and six months ended June 30, 2018 on a per BOE basis decreased by 7% and 8% to \$2.57 and \$2.71 per BOE, from \$2.76 and \$2.96, respectively in the corresponding periods of 2017. The decrease in Colombian transportation expenses per BOE was due to renegotiation of certain sales contracts, which had lower transportation costs compared to contracts used in 2017.

Transportation expenses for the three months ended June 30, 2018 decreased 7% compared with \$7.0 million in the prior quarter. On a per BOE basis, transportation expenses decreased by 10% to \$2.57 from \$2.86 in the prior quarter. The decrease was primarily due to the use of alternative transportation routes, which had lower costs per BOE.

In addition to lower transportation expenses, we also achieved decreases in quality and transportation discounts. The following table shows the variance in our average realized prices net of transportation expenses in Colombia for the three and six months ended June 30, 2018 compared with the prior quarter and the corresponding periods in 2017:

| U.S. Dollars Per BOE Sales Volumes NAR   | Second<br>Quarter<br>2018<br>Compared<br>with First<br>Quarter<br>2018 | Second<br>Quarter<br>2018<br>Compared<br>with<br>Second<br>Quarter<br>2017 | Six<br>Months<br>Ended,<br>June 30,<br>2018<br>Compared<br>with Six<br>Months<br>Ended<br>June 30,<br>2017 |
|--|--|--|--|
| Average realized price net of transportation expenses for the comparative period         | \$ 53.60   | \$ 37.42   | \$ 38.37   |
| Increase in benchmark prices   | 7.72   | \$ 23.98   | 18.25  |
| Decrease in quality and transportation discounts   | 0.19   | 0.21   | 0.91   |
| Decrease in transportation expenses  | 0.29   | 0.19   | 0.25   |
| Average realized price net of transportation expenses for the period ended June 30, 2018 | \$ 61.80   | \$ 61.80   | \$ 57.78   |

Total Company operating expenses for the three and six months ended June 30, 2018 increased by 29% to \$35.1 million, and by 20% to \$61.3 million, respectively, compared with total Company operating expenses in the corresponding periods of 2017.

Colombian operating expenses for the three and six months ended June 30, 2018 on a per BOE basis increased by \$2.36 and \$1.12, respectively, compared with the corresponding periods of 2017. Workover expenses increased by \$0.11 and decreased by \$0.27, respectively, over the same periods. Excluding workover expenses, Colombia operating expenses increased by \$2.25 and \$1.39, respectively, primarily as a result of payments triggered by renegotiating our field operating agreements, power generation costs, equipment rental and accelerated maintenance costs mainly in the Acordionero field during the second quarter of 2018.

Operating expenses for the three months ended June 30, 2018 increased by 33% compared with the prior quarter. On a per BOE basis, operating expenses increased by \$3.08. Workover expenses increased by \$1.45. Excluding workover expenses, operating expenses increased by \$1.63 compared with the prior quarter as a result of higher operating activities during the second quarter of 2018 mentioned in the paragraph above.

## DD&amp;A Expenses

|           | Three Months Ended June 30, 2018     |              | Three Months Ended June 30, 2017     |              |
|-----------|--------------------------------------|--------------|--------------------------------------|--------------|
|           | DD&A expenses, thousand U.S. Dollars | DD&A Per BOE | DD&A expenses, thousand U.S. Dollars | DD&A Per BOE |
| Colombia  | \$46,065                             | \$ 18.14     | \$30,130                             | \$ 13.17     |
| Brazil    | —                                    | —            | 1,050                                | 10.02        |
| Peru      | —                                    | —            | 412                                  | —            |
| Corporate | 542                                  | —            | 221                                  | —            |
|           | \$46,607                             | \$ 18.36     | \$31,813                             | \$ 13.30     |

|           | Six Months Ended June 30, 2018       |              | Six Months Ended June 30, 2017       |              |
|-----------|--------------------------------------|--------------|--------------------------------------|--------------|
|           | DD&A expenses, thousand U.S. Dollars | DD&A Per BOE | DD&A expenses, thousand U.S. Dollars | DD&A Per BOE |
| Colombia  | \$84,564                             | \$ 16.96     | \$55,065                             | \$ 12.48     |
| Brazil    | —                                    | —            | 2,263                                | 10.69        |
| Peru      | —                                    | —            | 921                                  | —            |
| Corporate | 1,504                                | —            | 440                                  | —            |
|           | \$86,068                             | \$ 17.26     | \$58,689                             | \$ 12.69     |

DD&A expenses for the three and six months ended June 30, 2018 increased to \$46.6 million (\$18.36 per BOE) and \$86.1 million (\$17.26 per BOE), respectively, from \$31.8 million (\$13.30 per BOE) and \$58.7 million (\$12.69 per BOE), respectively, in the corresponding periods in 2017. On a per BOE basis, the increase was due to higher costs in the depletable base, partially offset by increased proved reserves. On a per BOE basis, DD&A expenses increased by 14% from \$16.12 per BOE in the prior quarter primarily due to higher costs in the depletable base.

## G&amp;A Expenses

| (Thousands of U.S. Dollars)                      | Three Months Ended June 30, |         |          | Three Months Ended March 31, | Six Months Ended June 30, |          |          |
|--|-----------------------------|---------|----------|------------------------------|---------------------------|----------|----------|
|  | 2018                        | 2017    | % Change | 2018                         | 2018                      | 2017     | % Change |
| G&A Expenses Before Stock-Based Compensation     | \$6,604                     | \$7,610 | (13 )    | \$7,982                      | \$14,586                  | \$15,173 | (4 )     |
| G&A Stock-Based Compensation                     | 6,609                       | 1,903   | 247      | 3,178                        | 9,787                     | 3,052    | 221      |
| G&A Expenses, Including Stock-Based Compensation | \$13,213                    | \$9,513 | 39       | \$11,160                     | \$24,373                  | \$18,225 | 34       |

U.S. Dollars Per BOE Sales Volumes NAR

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|  |        |        |       |        |        |        |       |
|--|--------|--------|-------|--------|--------|--------|-------|
| G&A Expenses Before Stock-Based Compensation     | \$2.60 | \$3.18 | (18 ) | \$3.26 | \$2.92 | \$3.28 | (11 ) |
| G&A Stock-Based Compensation                     | 2.60   | 0.80   | 225   | 1.30   | 1.96   | 0.66   | 197   |
| G&A Expenses, Including Stock-Based Compensation | \$5.20 | \$3.98 | 31    | \$4.56 | \$4.88 | \$3.94 | 24    |

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For the three and six months ended June 30, 2018, G&A expenses before stock-based compensation decreased by 13% and 4%, respectively, from the corresponding periods of 2017. The decrease was primarily the result of higher overhead recoveries, partially offset by increase in Colombia and Corporate G&A expenses commensurate with our growth. On a per BOE basis, G&A expenses before stock-based compensation decreased 18% and 11%, respectively, from the corresponding periods of 2017.

After stock-based compensation, G&A expenses for the three and six months ended June 30, 2018 increased by 39% to \$13.2 million and by 34% to \$24.4 million, respectively, compared with the corresponding periods in 2017 mainly due to higher G&A Stock-Based Compensation resulting from a higher share price at June 30, 2018. G&A expenses for the three months ended June 30, 2018 increased by 18% compared with the prior quarter for the same reason.

#### Foreign Exchange Losses

For the three and six months ended June 30, 2018 we had foreign exchange losses of \$1.9 million and \$1.0 million, respectively, compared with \$3.9 million and \$2.1 million, respectively, in the corresponding periods of 2017. Deferred taxes are considered a monetary liability and require translation from local currency to U.S. dollar functional currency at each balance sheet date. This translation was the main source of the foreign exchange gains and losses. Due to the long-term nature of deferred tax liabilities, the related foreign exchange losses are not expected to be realized in the near-term.

The following table presents the change in the U.S. dollar against the Colombian peso for the three and six months ended June 30, 2018, and 2017:

|  | Three Months Ended June 30, |                    | Six Months Ended June 30, |                    |
|--|-----------------------------|--------------------|---------------------------|--------------------|
|  | 2018                        | 2017               | 2018                      | 2017               |
| Change in the U.S. dollar against the Colombian peso | strengthened by 5%          | strengthened by 6% | weakened by 2%            | strengthened by 1% |

#### Financial Instrument Gains and Losses

The following table presents the nature of our financial instruments gains and losses for the three and six months ended June 30, 2018, and 2017:

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
| (Thousands of U.S. Dollars)              | 2018                        | 2017      | 2018                      | 2017      |
| Commodity price derivative loss (gain)   | \$14,461                    | \$(1,545) | \$19,455                  | \$(6,247) |
| Foreign currency derivatives loss (gain) | 1,945                       | 98        | (2,024)                   | (639)     |
| Investment gain                          | (11,638)                    | —         | (5,717)                   | —         |
|  | \$4,768                     | \$(1,447) | \$11,714                  | \$(6,886) |

#### Income Tax Expense and Recovery

|                             | Three Months Ended June 30, |         | Six Months Ended June 30, |          |
|-----------------------------|-----------------------------|---------|---------------------------|----------|
| (Thousands of U.S. Dollars) | 2018                        | 2017    | 2018                      | 2017     |
| Income before income tax    | \$48,296                    | \$6,490 | \$91,928                  | \$38,057 |
| Current income tax expense  | \$4,827                     | \$1,772 | \$17,116                  | \$9,189  |

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|                             |          |          |          |          |
|-----------------------------|----------|----------|----------|----------|
| Deferred income tax expense | 23,169   | 11,525   | 36,651   | 22,904   |
| Total income tax expense    | \$27,996 | \$13,297 | \$53,767 | \$32,093 |

Effective tax rate

|  |    |   |    |   |
|--|----|---|----|---|
|  | 58 | % | 84 | % |
|--|----|---|----|---|

Current income tax expense was higher in the three and six months ended June 30, 2018 compared with the corresponding periods of 2017 as a result of higher taxable income in Colombia. The deferred income tax expense for the three and six months ended

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June 30, 2018 of \$23.2 million and \$36.7 million, respectively, was primarily due to excess tax depreciation as compared with accounting depreciation in Colombia.

Current income tax expense decreased to \$4.8 million compared with \$12.3 million in the prior quarter primarily as a result of accelerated tax write-off related to current period drilling activities.

For the six months ended June 30, 2018, the difference between the effective tax rate of 58% and the 21% U.S. statutory rate was primarily due to an increase to the impact of foreign taxes, valuation allowance, stock-based compensation, foreign currency translation and non-deductible third party royalty in Colombia.

For the six months ended June 30, 2017, the difference between the effective tax rate of 84% and the 35% U.S. statutory rate was primarily due to an increase in the impact of foreign taxes, other permanent differences, valuation allowance largely attributable to losses incurred in the United States and Colombia, as well as the impact of a non-deductible third-party royalty in Colombia, stock-based compensation and other local taxes.



## Net Income and Funds Flow from Operations (a Non-GAAP Measure)

| (Thousands of U.S. Dollars)  | Second<br>Quarter<br>2018<br>Compared<br>with First<br>Quarter<br>2018 | %    | Second<br>Quarter<br>2018<br>Compared<br>with<br>Second<br>Quarter<br>2017 | %     | Six<br>Months<br>Ended,<br>June 30,<br>2018<br>Compared<br>with Six<br>Months<br>Ended<br>June 30,<br>2017 | %     |
|--|--|------|--|-------|--|-------|
| Net income (loss) for the comparative period                                       | \$ 17,861  |      | \$ (6,807 )  |       | \$ 5,964   |       |
| Increase (decrease) due to:  |  |      |  |       |  |       |
| Prices   | 20,096   |      | 61,401   |       | 95,920   |       |
| Sales volumes  | 5,122  |      | 5,917  |       | 14,967   |       |
| Expenses:  |  |      |  |       |  |       |
| Operating  | (8,794 )   |      | (7,851 )   |       | (10,179 )  |       |
| Transportation   | 475  |      | (30 )  |       | (85 )  |       |
| Cash G&A and RSU settlements, excluding stock-based<br>compensation expense        | 1,411  |      | 1,156  |       | 1,012  |       |
| Interest, net of amortization of debt issuance costs                               | (1,707 )   |      | (3,821 )   |       | (6,156 )   |       |
| Realized foreign exchange  | (240 )   |      | (338 )   |       | 531  |       |
| Settlement of financial instruments  | (3,849 )   |      | (10,114 )  |       | (16,699 )  |       |
| Current taxes  | 7,462  |      | (3,055 )   |       | (7,927 )   |       |
| Equity tax   | —  |      | —  |       | 1,224  |       |
| Other  | (175 )   |      | 364  |       | 743  |       |
| Net change in funds flow from operations <sup>(1)</sup> from comparative<br>period | 19,801   |      | 43,629   |       | 73,351   |       |
| Expenses:  |  |      |  |       |  |       |
| Depletion, depreciation and accretion  | (7,146 )   |      | (14,794 )  |       | (27,379 )  |       |
| Deferred tax   | (9,687 )   |      | (11,644 )  |       | (13,747 )  |       |
| Amortization of debt issuance costs  | (173 )   |      | (223 )   |       | (288 )   |       |
| Stock-based compensation, net of RSU settlement                                    | (3,464 )   |      | (4,856 )   |       | (7,160 )   |       |
| Financial instruments gain or loss, net of financial<br>instruments settlements    | 6,027  |      | 3,899  |       | (1,901 )   |       |
| Unrealized foreign exchange  | (2,627 )   |      | 2,312  |       | 537  |       |
| Loss on sale   | (292 )   |      | 8,784  |       | 8,784  |       |
| Net change in net income or loss   | 2,439  |      | 27,107   |       | 32,197   |       |
| Net income for the current period  | \$ 20,300  | 14 % | \$ 20,300  | 398 % | \$ 38,161  | 540 % |

<sup>(1)</sup>Funds flow from operations is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to "Financial and Operational Highlights—non-GAAP measures" for a definition and reconciliation of this measure.

## 2018 Capital Program

Colombia remains our focus and represents 100% of the 2018 capital program. We have expanded the 2018 development capital program by an additional \$15 to \$30 million for;

- Ayombero appraisal drilling of 3 wells based on the success of the Ayombero-1 well;
- Costayaco development drilling in legacy reservoirs and 1 additional water injection well; and
- Acordionero development wells accelerated from 2019 into fourth quarter 2018.

We expect the following ranges for our revised 2018 capital budget:

|                     | Number<br>of<br>Wells<br>(Gross) | Number<br>of<br>Wells<br>(Net) | 2018<br>Capital<br>Budget<br>(\$<br>million) |
|---------------------|----------------------------------|--------------------------------|--|
| Colombia            |                                  |                                |  |
| Development         | 22-24                            | 21-22                          | \$130-135                                    |
| Exploration         | 8-11                             | 7-10                           | 80-90  |
| Facilities          | —                                | —                              | 75-80  |
| Seismic and Studies | —                                | —                              | 20   |
|                     | 30-35                            | 28-32                          | \$305-325                                    |

Based on the midpoint of the guidance, the capital budget is forecasted to be approximately 68% directed to development and 32% to exploration. Between 35% and 40% of the revised 2018 development capital program is expected to be directed to facilities, with approximately 75% of this investment expected to be dedicated to the acceleration of the ongoing facilities expansion at the Acordionero Field. We expect our revised 2018 capital program to be fully funded by cash flows from operations.

Capital expenditures during the three months ended June 30, 2018, were \$84.4 million:

(Thousands of U.S. Dollars)

|                          |           |
|--------------------------|-----------|
| Colombia:                |           |
| Exploration              | \$ 18,301 |
| Development:             |           |
| Facilities               | 16,957    |
| Drilling and Completions | 41,696    |
| Other                    | 6,803     |
|                          | 83,757    |
| Corporate                | 637       |
|                          | \$84,394  |

During the three months ended June 30, 2018, we drilled the following wells in Colombia:

|                | Number<br>of wells<br>(Gross) | Number<br>of wells<br>(Net) |
|----------------|-------------------------------|-----------------------------|
| Development    | 5                             | 5.0                         |
| Exploration    | 1                             | 0.5                         |
| Total Colombia | 6                             | 5.5                         |

Five development wells were spud, consisting of two in the Midas Block (Acordionero-23-i and 24), two in the Chaza Block (Costayaco-33 and 35-i), and one in the Putumayo-7 Block (Cumplidor-2). Three of these wells are currently on production (Costayaco-33, 35-i and Cumplidor-2). Additionally, of the wells that were in-progress at March 31, 2018, three development wells (Acordionero-20, 22 and Costayaco-32) are currently producing. We also drilled the Tonga-1 exploration well in the Sinu-3 Block, which was plugged and abandoned as the well did not encounter commercial hydrocarbon quantities. This was a commitment exploration well.

We also continued facilities work at the Acordionero Field on the Midas Block and the Moqueta and Costayaco Fields on the Chaza Block.

During the three months ended June 30, 2018, we acquired additional working interests in Alea1848-A and 1947-C for total cash consideration of \$3.1 million, which increased our position in these blocks to 100% and expanded our exploration opportunities in the Putumayo Basin. These acquisitions are subject to approval by the Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency).

## Liquidity and Capital Resources

| (Thousands of U.S. Dollars)                  | As at            |             | December 31,<br>2017 |
|--|------------------|-------------|----------------------|
|  | June 30,<br>2018 | %<br>Change |                      |
| Cash and Cash Equivalents                    | \$125,807        | 921         | \$ 12,326            |
| Current Restricted Cash and Cash Equivalents | \$2,836          | (76 )       | \$ 11,787            |
| Revolving Credit Facility                    | \$—              | (100 )      | \$ 148,000           |
| Senior Notes                                 | \$300,000        | —           | \$ —                 |
| Convertible Notes                            | \$115,000        | —           | \$ 115,000           |

We believe that our capital resources, including cash on hand, cash generated from operations and available capacity on our credit facility, will provide us with sufficient liquidity to meet our strategic objectives and planned capital program for 2018, given current oil price trends and production levels. In accordance with our investment policy, available cash balances are held in our primary cash management banks or may be invested in U.S. or Canadian government-backed federal, provincial or state securities or other money market instruments with high credit ratings and short-term liquidity. We believe that our current financial position provides us the flexibility to respond to both internal growth opportunities and those available through acquisitions.

At June 30, 2018, we had a revolving credit facility with a syndicate of lenders with a borrowing base of \$300 million and we had zero drawn on this credit facility. Availability under the revolving credit facility is determined by the reserves-based borrowing base determined by the lenders. The next re-determination of the borrowing base is due to occur no later than November 2018.

At June 30, 2018, we had \$115 million aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the "Convertible Notes") and \$300 million aggregate principal amount of 6.25% Senior Notes due 2025 (the "Senior Notes") outstanding. The Convertible Notes bear interest at a rate of 5.00% per year, payable semi-annually in arrears on April 1 and October 1 of each year. The Convertible Notes will mature on April 1, 2021, unless earlier redeemed, repurchased or converted. The Convertible Notes are convertible to Common Stock at a conversion price of approximately \$3.21 per share of Common Stock at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date. The Senior Notes bear interest at a rate of 6.25% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2018. The Senior Notes will mature on February 15, 2025, unless earlier redeemed or repurchased.

Under the terms of our credit facility and Senior Notes, we are required to maintain compliance with certain financial and operating covenants which include: limitations on our ratio of debt to net income plus interest, taxes, depreciation, depletion, amortization, exploration expenses and all non-cash charges minus all non-cash income ("EBITDAX") to a maximum of 4.0 to 1.0 (under the credit facility) and 3.5 to 1.0 (under the Senior Notes); the maintenance of a ratio of EBITDAX to interest expense of at least 2.5 to 1.0 (definitions of debt, EBITDAX and other relevant terms are per the credit agreement or the indenture governing the Senior Notes and may differ between these agreements). As at June 30, 2018, we were in compliance with all financial and operating covenants in these agreements. Under the terms of the credit facility and Senior Notes, we are also limited in our ability to make distributions to our shareholders.

## Cash and Cash Equivalents Held Outside of Canada and the United States

At June 30, 2018, 100% of our cash and cash equivalents were held by subsidiaries and partnerships outside of Canada and the United States. This cash was generally not available to fund domestic or head office operations unless funds were repatriated. At this time, we do not intend to repatriate further funds other than to pay head office charges, but if we did, we might have to accrue and pay withholding taxes in certain jurisdictions on the distribution of accumulated earnings. Undistributed earnings of foreign subsidiaries are considered to be permanently reinvested and a determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

In Colombia, we participate in a special exchange regime, and we receive revenue in U.S. dollars offshore. We may also pay invoices denominated in U.S. dollars for our Colombian business from these U.S. dollars received offshore.

## Derivative Positions

At June 30, 2018, we had outstanding commodity price derivative positions as follows:

| Period and type of instrument                     | Volume,<br>bopd | Reference | Sold<br>Swap<br>(\$/bbl,<br>Weighted<br>Average) | Purchased<br>Call<br>(\$/bbl,<br>Weighted<br>Average) |
|---|-----------------|-----------|--|---|
| Swaps: July 1, to December 31, 2018               | 5,000           | ICE Brent | \$ 55.90   | n/a   |
| Participating Swaps: July 1, to December 31, 2018 | 5,000           | ICE Brent | \$ 52.50   | \$ 56.11  |

At June 30, 2018, current liabilities on our balance sheet included \$27.2 million in relation to the above outstanding commodity price derivative positions.

At June 30, 2018, we had the following outstanding foreign currency derivative positions:

| Period and type of instrument              | Amount<br>Hedged<br>(Millions<br>COP) | U.S. Dollar<br>Equivalent<br>of Amount<br>Hedged<br>(Thousands<br>of U.S.<br>Dollars) <sup>(1)</sup> | Reference | Purchased<br>Call<br>(COP) | Sold Put<br>(COP,<br>Weighted<br>Average) |
|--|---------------------------------------|--|-----------|----------------------------|---|
| Collars: July 1, 2018 to December 31, 2018 | 87,000                                | 29,685   | COP       | 3,000                      | 3,107                                     |

<sup>(1)</sup> At June 30, 2018 foreign exchange rate.

At June 30, 2018, current assets on our balance sheet included \$0.9 million in relation to the above outstanding foreign currency derivative positions. We do not have any outstanding commodity price derivative positions relating to 2019.

## Cash Flows

The following table presents our primary sources and uses of cash and cash equivalents for the periods presented:

|  | Six Months Ended June 30,<br>2018 |   | 2017     |
|--|-----------------------------------|---|----------|
| Sources of cash and cash equivalents:  |                                   |   |          |
| Net income   | \$ 38,161                         |   | \$ 5,964 |
| Adjustments to reconcile net income to EBITDA <sup>(1)</sup> and funds flow from operations <sup>(1)</sup> |                                   |   |          |
| DD&A expenses  | 86,068                            |   | 58,689   |
| Interest expense   | 12,870                            |   | 6,426    |
| Income tax expense   | 53,767                            |   | 32,093   |
| EBITDA   | 190,866                           |   | 103,172  |
| Current income tax expense   | (17,116)                          | ) | (9,189)  |
| Stock-based compensation expense   | 10,202                            |   | 3,183    |
| Contractual interest and other financing expenses  | (11,357)                          | ) | (5,201)  |
| Cash settlement of RSUs (360)  |                                   | ) | (501)    |
| Unrealized foreign exchange loss   | 539                               |   | 1,076    |
| Financial instruments loss (gain)  | 11,714                            |   | (6,886)  |
| Cash settlement of financial instruments   | (15,483)                          | ) | 1,216    |
| Loss on sale   | 292                               |   | 9,076    |
| Funds flow from operations   | 169,297                           |   | 95,946   |
| Proceeds from bank debt, net of issuance costs   | 4,988                             |   | 98,304   |
| Proceeds from issuance of Senior Notes, net of issuance costs  | 288,087                           |   | —        |
| Proceeds from issuance of shares   | 845                               |   | —        |
| Cash deposit received for letter of credit arrangements upon sale of Brazil business unit                  | —                                 |   | 4,700    |
| Deposit received for sale of Brazil business unit  | —                                 |   | 34,481   |
|  | 463,217                           |   | 233,431  |



|  |          |         |          |        |
|--|----------|---------|----------|--------|
| Uses of cash and cash equivalents:   |          |         |          |        |
| Additions to property, plant and equipment   | (157,088 | )       | (104,025 | )      |
| Additions to property, plant and equipment - property acquisitions                       | (3,100   | )       | (30,410  | )      |
| Repayment of bank debt   | (153,000 | )       | (33,000  | )      |
| Repurchase of shares of Common Stock   | (1,208   | )       | (10,000  | )      |
| Net changes in assets and liabilities from operating activities                          | (37,994  | )       | (28,112  | )      |
| Changes in non-cash investing working capital  | (6,142   | )       | (627     | )      |
| Settlement of asset retirement obligations   | (369     | )       | (298     | )      |
| Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents | (69      | )       | (1,175   | )      |
|  | (358,970 | )       | (207,647 | )      |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents       | \$       | 104,247 | \$       | 25,784 |

(1) EBITDA and funds flow from operations are a non-GAAP measures which do not have any standardized meaning prescribed under GAAP. Refer to “Financial and Operational Highlights - non-GAAP measures” for a definition and reconciliation of this measure.

One of the primary sources of variability in our cash flows from operating activities is the fluctuation in oil prices, the impact of which we partially mitigate by entering into commodity derivatives. Sales volume changes and costs related to operations

and debt service also impact cash flow. Our cash flows from operating activities are also impacted by foreign currency exchange rate changes, the impact of which we partially mitigate by entering into foreign currency derivatives.

#### Off-Balance Sheet Arrangements

As at June 30, 2018, we had no off-balance sheet arrangements.

#### Contractual Obligations

During February 2018, we issued \$300 million aggregate principal amount of the Senior Notes. Refer to Note 5 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Form 10-Q, incorporated herein by reference, for further information. During the six months ended June 30, 2018, we fully repaid the balance of \$153 million outstanding under our revolving credit facility, which remained undrawn at June 30, 2018.

Except as noted above, as at June 30, 2018, there were no other material changes to our contractual obligations outside of the ordinary course of business from those as at December 31, 2017.

#### Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in Item 7 of our 2017 Annual Report on Form 10-K, filed with the SEC on February 27, 2018, and have not changed materially since the filing of that document, other than as follows:

#### Revenue Recognition

We adopted ASC 606 Revenue from Contracts with Customers with a date of initial application of January 1, 2018 in accordance with the modified retrospective approach. Except for providing enhanced disclosures on our revenue transactions, the application of ASC 606 did not have an impact on our consolidated financial position, results of operations or cash flows.

We evaluate our arrangements with third parties and partners to determine if we act as a principal or an agent. In making this evaluation, management considers if we obtain control of the product delivered, which is indicated by us having the primary responsibility for the delivery of the product, having ability to establish prices or having inventory risk. If we act in the capacity of an agent rather than as a principal in transaction, then the revenue is recognized on a net-basis, only reflecting the fee realized by us from the transaction. When determining if we acted as a principal or as an agent in transactions, we determine if we obtain control of the product. As part of this assessment, management considered detailed criteria for revenue recognition set out in ASC 606.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

#### Commodity price risk

Our principal market risk relates to oil prices. Oil prices are volatile and unpredictable and influenced by concerns over world supply and demand imbalance and many other market factors outside of our control. Most of our revenues are from oil sales at prices which reflect the blended prices received upon shipment by the purchaser at defined sales points or are defined by contract relative to ICE Brent and adjusted for quality each month.

We have entered into commodity price derivative contracts to manage the variability in cash flows associated with the forecasted sale of our oil production, reduce commodity price risk and provide a base level of cash flow in order to assure we can execute at least a portion of our capital spending.

#### Foreign currency risk

Foreign currency risk is a factor for our company but is ameliorated to a certain degree by the nature of expenditures and revenues in the countries where we operate. Our reporting currency is U.S. dollars and 100% of our revenues are related to the U.S. dollar price of Brent or WTI oil. We receive 100% of our revenues in U.S. dollars and the majority of our capital expenditures are in U.S. dollars or are based on U.S. dollar prices. The majority of income and value added taxes and G&A expenses in Colombia are in local currency. Certain G&A expenses incurred at our head office in Canada are denominated in Canadian dollars. While we operate in South America exclusively, the majority of our acquisition expenditures have been valued and paid in U.S. dollars.

We have entered into foreign currency derivative contracts to manage the variability in cash flows associated with our forecasted Colombian peso denominated costs.

Additionally, foreign exchange gains and losses result primarily from the fluctuation of the U.S. dollar to the Colombian peso due to our current and deferred tax liabilities, which are monetary liabilities, denominated in the local currency of the Colombian foreign operations. As a result, a foreign exchange gain or loss must be calculated on conversion to the U.S. dollar functional currency.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on our revolving credit facility, which bears floating rates of interest. At June 30, 2018, our outstanding revolving credit facility was nil (December 31, 2017 - \$148.0 million).

#### Further Information

See Note 10 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for further information regarding our derivative contracts, including the notional amounts and call and put prices by expected (contractual) maturity dates. Expected cash flows from the derivatives equaled the fair value of the contract. The information is presented in U.S. dollars because that is our reporting currency. We do not hold any of these derivative contracts for trading purposes.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or Exchange Act). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by Gran Tierra in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, as required by Rule 13a-15(b) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that Gran Tierra's disclosure controls and procedures were effective as of June 30, 2018.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - Other Information

##### Item 1. Legal Proceedings

See Note 9 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for material developments with respect to matters previously reported in our Annual Report on Form 10-K for the year ended December 31, 2017, and any material matters that have arisen since the filing of such report.

Item 1A. Risk Factors

See Part I, Item 1A Risk Factors of our 2017 Annual Report on Form 10-K. The risks facing our company have not changed materially from those set forth in Part I, Item 1A Risk Factors of our 2017 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

|                  | (a)<br>Total<br>Number of<br>Shares<br>Purchased <sup>(1)</sup> | (b)<br>Average Price<br>Paid per<br>Share <sup>(2)</sup> | (c)<br>Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Maximum<br>Number of<br>Shares that May<br>Yet be Purchased<br>Under the Plans<br>or Programs <sup>(3)</sup> |
|------------------|---|--|---|---|
| April 1-30, 2018 | —   | —  | —   | 18,804,820  |
| May 1-31, 2018   | 4,500   | 2.98   | 4,500   | 18,800,320  |
| June 1- 30, 2018 | —   | —  | —   | 18,800,320  |
|                  | 4,500   | 2.98   | 4,500   | 18,800,320  |

<sup>(1)</sup> Based on settlement date.

<sup>(2)</sup> Exclusive of commissions paid to the broker to repurchase the Common Stock.

<sup>(3)</sup> On March 7, 2018, we announced that we intended to implement a share repurchase program (the “2018 Program”) through the facilities of the TSX and eligible alternative trading platforms in Canada. We received regulatory approval from the TSX to commence the 2018 Program on March 12, 2018. We are able to purchase at prevailing market prices up to 19,269,732 shares of Common Stock, representing approximately 5% of our issued and outstanding shares of Common Stock as of March 8, 2018.

Shares purchased pursuant to the 2018 Program to date have been canceled. The 2018 Program will expire on March 11, 2019, or earlier if the 5.00% share maximum is reached. The 2018 Program could be terminated by us at any time, subject to compliance with regulatory requirements. As such, there can be no assurance regarding the total number of shares that may be repurchased under the 2018 Program.

Item 6. Exhibits

| Exhibit No. | Description  | Reference  |
|-------------|--|--|
| 2.1         | <u>Plan of Conversion, dated October 31, 2016.</u>   | Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.1         | <u>Certificate of Incorporation.</u>   | Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.2         | <u>Bylaws of Gran Tierra Energy Inc.</u>   | Incorporated by reference to Exhibit 3.4 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.3         | <u>Certificate of Retirement dated July 9, 2018</u>  | Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 9, 2018 (SEC File No. 001-34018).      |
| 4.1         | <u>Indenture related to the 5.00% Convertible Senior Notes due 2021, dated as of April 6, 2016, between Gran Tierra Energy Inc. and U.S. Bank National Association</u> | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on April 6, 2016 (SEC File No. 001-34018).    |
| 4.2         | <u>Form of 5.00% Convertible Senior Notes due 2021</u>   | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on April 6, 2016 (SEC File No. 001-34018).    |
| 4.3         | <u>Subscription Receipt Agreement, dated July 8, 2016, by and between Gran Tierra Energy Inc. and Computershare Trust Company of Canada.</u>                           | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on July 14, 2016 (SEC File No. 001-34018).    |
| 4.4         | <u>Form of Registration Rights Agreement.</u>  | Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed with the SEC on July 14, 2016 (SEC File No. 001-34018).    |
| 4.5         | <u>Purchase Agreement, dated February 8, 2018, by and among Gran Tierra Energy International Holdings Ltd., Gran Tierra Energy Inc. and</u>                            | Incorporated by reference to Exhibit 10.1 to the Current Report on Form  |

- the subsidiary guarantors named therein, and Credit Suisse Securities (USA) LLC and RBC Capital Markets, LLC, as Representatives of the several initial purchasers. 8-K filed with the SEC on February 9, 2018 (SEC File No. 001-34018).
- 4.6 Indenture related to the 6.25% Senior Notes due 2025, dated as of February 15, 2018, between Gran Tierra Energy International Holdings Ltd., the Guarantors named therein and U.S. Bank National Association Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on February 16, 2018 (SEC File No. 001-34018).
- 4.7 Form of 6.25% Senior Notes due 2025 Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on February 16, 2018 (SEC File No. 001-34018).
- 10.1 Tenth Amendment to Credit Agreement, dated as of May 25, 2018, by and among Gran Tierra Energy Inc., Gran Tierra Energy International Holdings Ltd., the Bank of Nova Scotia and the lenders party thereto Filed herewith.
- 31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Filed herewith.
- 31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Filed herewith.
- 32.1 Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Furnished herewith.



101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

+ Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Gran Tierra undertakes to furnish supplemental copies of any of the omitted schedules upon request by the SEC.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRAN TIERRA ENERGY INC.

Date: August 2, 2018 /s/ Gary S. Guidry  
By: Gary S. Guidry  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2018 /s/ Ryan Ellson  
By: Ryan Ellson  
Chief Financial Officer  
(Principal Financial and Accounting Officer)