GRAN TIERRA ENERGY, INC.
Form 10-Q
May 10, 2011

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

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2011
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)

| Nevada<br>(State or other jurisdiction of incorporation or organization) | 98-0479924<br>(I.R.S. employer identification number) |
|---|---|
| 300, 625 11th Avenue S.W.<br>Calgary, Alberta, Canada<br>(Address of principal executive offices) | T2R 0E1<br>(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 x NO ¨

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, 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 x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

| Large Accelerated Filer x | Accelerated Filer ¨ |
|---|---|
| Non-Accelerated Filer ¨ | (do not check if a smaller reporting company) Smaller Reporting Company ¨ |

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

On May 3, 2011, the following numbers of shares of the registrant's capital stock were outstanding: 260,437,501 shares of the registrant's Common Stock, $0.001 par value; one share of Special A Voting Stock, $0.001 par value, representing 7,811,112 shares of Gran Tierra Goldstrike Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock; and one share of Special B Voting Stock, $0.001 par value, representing 8,998,069 shares of Gran Tierra Exchangeco Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| REVENUE AND OTHER INCOME | | |
| Oil and natural gas sales | $ 122,296 | $ 92,932 |
| Interest | 223 | 178 |
| | 122,519 | 93,110 |
| EXPENSES | | |
| Operating | 16,396 | 10,185 |
| Depletion, depreciation, accretion, and impairment (Note 5) | 63,357 | 40,343 |
| General and administrative | 13,638 | 7,190 |
| Equity tax (Note 8) | 8,050 | - |
| Financial instruments gain (Note 11) | (230) | (44) |
| Gain on acquisition (Note 3) | (24,300) | - |
| Foreign exchange loss | 5,199 | 14,294 |
| | 82,110 | 71,968 |
| INCOME BEFORE INCOME TAXES | 40,409 | 21,142 |
| Income tax expense (Note 8) | (26,696) | (11,182) |
| NET INCOME AND COMPREHENSIVE INCOME | 13,713 | 9,960 |
| RETAINED EARNINGS, BEGINNING OF PERIOD | 58,097 | 20,925 |
| RETAINED EARNINGS, END OF PERIOD | $ 71,810 | $ 30,885 |
| NET INCOME PER SHARE — BASIC | $ 0.05 | $ 0.04 |
| NET INCOME PER SHARE — DILUTED | $ 0.05 | $ 0.04 |
| WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC (Note 6) | 260,930,753 | 248,818,662 |
| WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED (Note 6) | 267,819,800 | 256,863,106 |

(See notes to the condensed consolidated financial statements)

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

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | $253,901 | $ 355,428 |
| Restricted cash (Note 12) | 7,950 | 250 |
| Accounts receivable | 137,059 | 43,035 |
| Inventory (Note 2) | 6,448 | 5,669 |
| Taxes receivable | 16,660 | 6,974 |
| Prepaids | 3,107 | 1,940 |
| Deferred tax assets (Note 8) | 2,112 | 4,852 |
| Total Current Assets | 427,237 | 418,148 |
| Oil and Gas Properties (using the full cost method of accounting) | | |
| Proved | 544,828 | 442,404 |
| Unproved | 402,070 | 278,753 |
| Total Oil and Gas Properties | 946,898 | 721,157 |
| Other capital assets | 6,352 | 5,867 |
| Total Property, Plant and Equipment (Note 5) | 953,250 | 727,024 |
| Other Long Term Assets | | |
| Restricted cash (Note 12) | 2,335 | 1,190 |
| Deferred tax assets (Note 8) | 2,497 | - |
| Other long term assets | 308 | 311 |
| Goodwill | 102,581 | 102,581 |
| Total Other Long Term Assets | 107,721 | 104,082 |
| Total Assets | $1,488,208 | $ 1,249,254 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable (Note 9) | $42,689 | $ 76,023 |
| Accrued liabilities (Note 9) | 60,808 | 32,120 |
| Bank debt (Note 12) | 31,250 | - |
| Taxes payable | 66,300 | 43,832 |
| Replacement warrants (Notes 3 and 6) | 1,292 | - |
| Asset retirement obligations (Note 7) | 334 | 338 |
| Total Current Liabilities | 202,673 | 152,313 |

| | | |
|---|---|---|
| Long Term Liabilities | | |
| Deferred tax liabilities (Note 8) | 216,697 | 204,570 |
| Deferred remittance tax and other | 1,064 | 1,036 |
| Equity tax payable (Note 8) | 10,174 | - |
| Asset retirement obligations (Note 7) | 9,767 | 4,469 |
| Total Long Term Liabilities | 237,702 | 210,075 |
| Commitments and Contingencies (Note 10) | | |
| Shareholders' Equity | | |
| Common shares (Note 6) | 5,848 | 4,797 |
| (260,053,351 and 240,440,830 common shares and 16,959,181 and 17,681,123 exchangeable shares, par value $0.001 per share, issued and outstanding as at March 31, 2011 and December 31, 2010 respectively) | | |
| Additional paid in capital | 968,101 | 821,781 |
| Warrants (Note 6) | 2,074 | 2,191 |
| Retained earnings | 71,810 | 58,097 |
| Total Shareholders' Equity | 1,047,833 | 886,866 |
| Total Liabilities and Shareholders' Equity | $1,488,208 | $ 1,249,254 |

(See notes to the condensed consolidated financial statements)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Operating Activities | | |
| Net income | $ 13,713 | $ 9,960 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depletion, depreciation, accretion, and impairment | 63,357 | 40,343 |
| Deferred taxes | (187) | (10,054) |
| Stock based compensation (Note 6) | 3,453 | 1,362 |
| Unrealized gain on financial instruments (Note 11) | (62) | (44) |
| Unrealized foreign exchange loss | 4,458 | 12,707 |
| Settlement of asset retirement obligations (Note 7) | (4) | - |
| Equity taxes payable long term | 6,132 | - |
| Gain on acquisition (Note 3) | (24,300) | - |
| Net changes in non-cash working capital | | |
| Accounts receivable | (83,036) | (46,208) |
| Inventory | 736 | 97 |
| Prepaids | (831) | (669) |
| Accounts payable and accrued liabilities | (22,756) | (17,796) |
| Taxes receivable and payable | 8,101 | 12,747 |
| Net cash provided by (used in) operating activities | (31,226) | 2,445 |
| Investing Activities | | |
| Restricted cash | (5,600) | 712 |
| Additions to property, plant and equipment | (74,266) | (27,072) |
| Proceeds from disposition of oil and gas property | - | 600 |
| Cash acquired on acquisition (Note 3) | 7,747 | - |
| Proceeds on sale of asset backed commercial paper (Note 3) | 22,679 | - |
| Long term assets and liabilities | 3 | 32 |
| Net cash used in investing activities | (49,437) | (25,728) |
| Financing Activities | | |
| Settlement of bank debt (Notes 3 and 12) | (22,853) | - |
| Proceeds from issuance of common shares | 1,989 | 18,173 |
| Net cash (used in) provided by financing activities | (20,864) | 18,173 |
| Net decrease in cash and cash equivalents | (101,527) | (5,110) |
| Cash and cash equivalents, beginning of period | 355,428 | 270,786 |
| Cash and cash equivalents, end of period | $ 253,901 | $ 265,676 |

| | | | | |
|---|---|---|---|---|
| | | | | |
| Cash | $ | 243,399 | $ | 101,580 |
| Term deposits | | 10,502 | | 164,096 |
| Cash and cash equivalents, end of period | $ | 253,901 | $ | 265,676 |
| | | | | |
| Supplemental cash flow disclosures: | | | | |
| Cash paid for interest | $ | 668 | $ | - |
| Cash paid for income taxes | $ | 9,693 | $ | 10,147 |
| Non-cash investing activities: | | | | |
| Non-cash working capital related to property, plant and equipment | $ | 42,698 | $ | 10,328 |

(See notes to the condensed consolidated financial statements)

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

| | Three Months Ended March 31, 2011 | Year Ended December 31, 2010 |
|---|---|---|
| Share Capital | | |
| Balance, beginning of period | $ 4,797 | $ 1,431 |
| Issue of common shares | 1,051 | 3,366 |
| Balance, end of period | 5,848 | 4,797 |
| Additional Paid in Capital | | |
| Balance, beginning of period | 821,781 | 766,963 |
| Issue of common shares | 141,910 | 19,119 |
| Exercise of warrants (Note 6) | 117 | 24,916 |
| Exercise of stock options (Note 6) | 717 | 2,300 |
| Stock based compensation expense (Note 6) | 3,576 | 8,483 |
| Balance, end of period | 968,101 | 821,781 |
| Warrants | | |
| Balance, beginning of period | 2,191 | 27,107 |
| Exercise of warrants (Note 6) | (117) | (24,916) |
| Balance, end of period | 2,074 | 2,191 |
| Retained Earnings | | |
| Balance, beginning of period | 58,097 | 20,925 |
| Net income | 13,713 | 37,172 |
| Balance, end of period | 71,810 | 58,097 |
| Total Shareholders' Equity | $ 1,047,833 | $ 886,866 |

(See notes to the condensed consolidated financial statements)

Gran Tierra Energy Inc.
Notes to the Condensed Consolidated Financial Statements (Unaudited)

1.Description of Business

Gran Tierra Energy Inc., a Nevada corporation (the "Company" or "Gran Tierra"), is a publicly traded oil and gas company engaged in acquisition, exploration, development and production of oil and natural gas properties. The Company's principal business activities are in Colombia, Argentina, Peru and Brazil.

2.Significant Accounting Policies

These interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim consolidated financial statements, and revenues and expenses during the reporting period. In the opinion of the Company's management, all adjustments (all of which are normal and recurring) that have been made are necessary to fairly state the consolidated financial position of the Company as at March 31, 2011, the results of its operations and its cash flows for the three month periods ended March 31, 2011 and 2010.

The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2010 included in the Company's 2010 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on February 25, 2011. The Company's significant accounting policies are described in Note 2 of the consolidated financial statements which are included in the Company's 2010 Annual Report on Form 10-K and are the same policies followed in these unaudited interim consolidated financial statements, except as disclosed below. The Company has evaluated all subsequent events through to the date these unaudited interim consolidated financial statements were issued.

Fair value of financial instruments

The Company's financial instruments are cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, bank debt, asset backed commercial paper ("ABCP") and derivatives. The fair values of these financial instruments, excluding ABCP, derivatives and bank debt, approximate their carrying values due to their immediate or short-term nature. Bank debt is recorded at amortized cost, except as noted in Note 12 and the fair value of the ABCP and derivatives are valued as disclosed in Notes 11 and 12.

Restricted cash

Restricted cash relates to cash resources pledged to secure letters of credit or to meet the requirement to place in to trust amounts for future debt repayments associated with a credit facility assumed upon the acquisition of Petrolifera Petroleum Limited ("Petrolifera") (Notes 3 and 12). Letters of credit currently secured by cash relate to requirements for work commitment guarantees contained in exploration contracts and are currently classified as current or long term assets.

Inventory

Crude oil inventories at March 31, 2011 and December 31, 2010 are $5.1 million and $3.6 million, respectively. Supplies at March 31, 2011 and December 31, 2010 are $1.3 million and $2.1 million, respectively.

Warrants

Upon issuance, the Company records warrants issued to purchase its common stock at fair value; subsequently, the warrants are carried at amortized cost or fair value, depending on the terms of the warrants. The Company determines the fair value of warrants issued by using the Black-Scholes option pricing model. Additional warrants (“Replacement Warrants”) were issued on the acquisition of Petrolifera and their fair value of $1.4 million was recorded as a current liability and as part of the consideration paid for the acquisition (Note 3). Changes in the fair value of this derivative are recorded in the statement of operations until the warrants are exercised or expire.

New Accounting Pronouncements

Stock Compensation

In April 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”), "Compensation–Stock Compensation (Topic 718)." The update clarifies that an employee share based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The implementation of this update did not materially impact the Company’s consolidated financial position, operating results or cash flows.

Business Combinations

In December 2010, the FASB issued ASU, "Business Combinations (Topic 850), Disclosures of Supplementary Pro Forma Information for Business Combinations." The update is intended to conform reporting of pro forma revenue and earnings for material business combinations included in the notes to the financial statements and expand disclosure of non-recurring adjustments that are directly attributable to the business combination. The pro forma revenue and earnings of the combined entity are presented as if the acquisition date had occurred as of the beginning of the annual reporting period. If comparatives are presented, the pro forma disclosures for both periods presented should be reported as if the acquisition had occurred as of the beginning of the comparable prior annual reporting period only. This ASU is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The implementation of this update did not materially impact the Company’s disclosures.

3. Business Combination

On March 18, 2011 (the “Acquisition Date”), Gran Tierra completed its acquisition of all the issued and outstanding common shares and warrants of Petrolifera, a Canadian corporation, pursuant to the terms and conditions of the Arrangement Agreement dated January 17, 2011 (the “Arrangement”). Petrolifera is a Calgary-based crude oil, natural gas and natural gas liquids exploration, development and production company active in Argentina, Colombia and Peru. The transaction contemplated by the Arrangement was effected through a court-approved plan of arrangement in Canada. The Court of Queen’s Bench of Alberta issued its Final Order approving the plan of arrangement on the Acquisition Date. The Arrangement was approved at a special meeting of Petrolifera shareholders on March 17, 2011 and by the Court of Queen's Bench of Alberta on March 18, 2011.

Under the Arrangement, Petrolifera shareholders received, for each Petrolifera share held, 0.1241 of a share of Gran Tierra common stock, and Petrolifera warrant holders received, for each Petrolifera warrant held, 0.1241 of a Replacement Warrant to purchase a share of Gran Tierra common stock at an exercise price of $9.67 Canadian (“CDN”) dollars per share. Gran Tierra Replacement Warrants are only net exercisable, and expire on August 28, 2011.

Gran Tierra has acquired all the issued and outstanding Petrolifera shares and warrants through the issuance of 18,075,247 Gran Tierra common shares, par value $0.001, and 4,125,036 Replacement Warrants. Upon completion of the transaction on the Acquisition Date, Petrolifera became an indirect wholly owned subsidiary of Gran Tierra. On a diluted basis, upon the closing of the Arrangement, Petrolifera security holders owned approximately 6.6% and the Gran Tierra security holders immediately prior to the transaction owned approximately 93.4% of the Company immediately following the transaction. The total consideration for the transaction was approximately $143.0 million.

The fair value of Gran Tierra's common shares was determined as the closing price of the common shares of Gran Tierra as at the Acquisition Date. The fair value of the Replacement Warrants was estimated on the Acquisition Date using the Black-Scholes option pricing model with the following assumptions:

| | | | |
|---|---|---|---|
| Exercise price (CDN dollars per warrant) | $ | 9.67 | |
| Risk-free interest rate | | 1.3 | % |
| Expected life | 0.45 Years | | |
| Volatility | | 44 | % |
| Expected annual dividend per share | Nil | | |
| Estimated fair value per warrant (CDN dollars) | $ | 0.32 | |

Gran Tierra's Replacement Warrants issued as a result of the acquisition meet the definition of a derivative. Because the exercise price of the Replacement Warrants is denominated in Canadian dollars, which is different from Gran Tierra's functional currency, the Replacement Warrants are not considered indexed to Gran Tierra's common shares and the Replacement Warrants cannot be classified within equity. Therefore the Replacement Warrants, which expire in August 2011, are classified as a current liability on the Gran Tierra's condensed consolidated balance sheet.

The acquisition is accounted for using the acquisition method, with Gran Tierra being the acquirer, whereby Petrolifera's assets acquired and liabilities assumed are recorded at their fair values as at the Acquisition Date and the results of Petrolifera have been consolidated with those of Gran Tierra from that date.

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

| (Thousands of U.S. Dollars) | |
|---|---|
| Consideration Transferred: | |
| Common shares issued net of share issue costs | $141,690 |
| Replacement Warrants | 1,354 |
| | $143,044 |
| | |
| Allocation of Consideration Transferred (1): | |
| Oil and gas properties | |
| Proved | $58,457 |
| Unproved | 161,278 |
| Other long term assets | 4,417 |
| Net working capital (including cash acquired of $7.7 million and accounts receivable of $6.4 million) | (14,622) |
| Asset retirement obligations | (4,901) |
| Bank debt | (22,853) |
| Other long term liabilities | (14,432) |
| Gain on acquisition | (24,300) |
| | $143,044 |

(1) The allocation of the consideration transferred is not final and is subject to change.

As shown above in the allocation of the consideration transferred, the fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration transferred. Consequently, Gran Tierra reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. As a result, Gran Tierra recognized a gain of $24.3 million, which is reported as "Gain on acquisition", in

the consolidated statement of operations. The gain reflects the impact on Petrolifera's pre-acquisition market value resulting from their lack of liquidity and capital resources required to maintain current production and reserves and further develop and explore their inventory of prospects.

As part of the assets acquired and included in the net working capital in the allocation of the consideration transferred, the Company assigned $22.5 million in fair value to investments in notes that Petrolifera received in exchange for ABCP with a face value of $31.3 million. On March 28, 2011, these notes were sold to an unrelated party for proceeds of $22.7 million after the associated line of credit was settled (Note 12).

The pro forma results for the three months ended March 31, 2011 and 2010 are shown below, as if the acquisition had occurred on January 1, 2010. Pro forma results are not indicative of actual results or future performance.

| (Thousands of U.S. Dollars except per share amounts) | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Oil and natural gas sales and interest | $ 131,714 | $ 107,882 |
| Net (loss) income | $ (21,711 ) | $ 11,821 |
| Net (loss) income per share -basic | $ (0.08 ) | $ 0.04 |
| Net (loss) income per share - diluted | $ (0.08 ) | $ 0.04 |

The supplemental pro forma earnings of Gran Tierra for the three months ended March 31, 2011 were adjusted to exclude $4.4 million of acquisition costs recorded in general and administrative expense and the $24.3 million gain on acquisition recognized in the first quarter of 2011 results of Gran Tierra because they are not expected to have a continuing impact on Gran Tierra's results of operations. The actual results of operations for Petrolifera, since the Acquisition Date were insignificant and have not been separately disclosed.

4.Segment and Geographic Reporting

The Company's reportable operating segments are Colombia, Argentina, Peru and Corporate, based on a geographic organization. The Company is primarily engaged in the exploration and production of oil and natural gas. In the three months ended March 31, 2011, Peru became a reportable geographic segment due to the significance of its loss before income taxes as compared to the consolidated loss before income taxes. Prior year comparative geographic segment presentation has been conformed to this presentation with the Peru related results and asset information disaggregated from the Corporate segment. Brazil is included as part of the Corporate segment and is not a reportable segment because the level of activity is not significant at this time. The accounting policies of the reportable geographic segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income or loss from oil and natural gas operations before income taxes.

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

| | Three Months Ended March 31, 2011 | | | | |
|---|---|---|---|---|---|
| (Thousands of U.S. Dollars except per unit of production amounts) | Colombia | Argentina | Peru | Corporate | Total |
| Revenues | $117,304 | $4,992 | $- | $- | $122,296 |
| Interest income | 87 | - | - | 136 | 223 |
| Depreciation, depletion, accretion and impairment | 30,036 | 1,147 | 31,933 | 241 | 63,357 |
| Depreciation, depletion, accretion and impairment - per unit of production | 24.77 | 11.90 | - | - | 48.39 |
| Segment income (loss) before income taxes | 57,886 | (430 ) | (32,625 ) | 15,578 | 40,409 |
| Segment capital expenditures | $42,264 | $11,622 | $14,287 | $930 | $69,103 |

| (Thousands of U.S. Dollars except per unit of production amounts) | Three Months Ended March 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Colombia | Argentina | Peru | Corporate | Total |
| Revenues | $ 89,433 | $ 3,499 | $ - | $ - | $ 92,932 |
| Interest income | 77 | 16 | - | 85 | 178 |
| Depreciation, depletion, accretion, and impairment | 35,006 | 5,267 | 8 | 62 | 40,343 |
| Depreciation, depletion, accretion and impairment - per unit of production | 27.58 | 69.20 | - | - | 29.99 |
| Segment income (loss) before income taxes | 28,760 | (4,644 ) | (248 ) | (2,726 ) | 21,142 |
| Segment capital expenditures | $ 17,553 | $ 660 | $ 527 | $ 764 | $ 19,504 |

| | As at March 31, 2011 | | | | |
|---|---|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | Argentina | Peru | Corporate | Total |
| Property, plant and equipment | $ 766,838 | $ 148,140 | $ 22,471 | $ 15,801 | $ 953,250 |
| Goodwill | 102,581 | - | - | - | 102,581 |
| Other assets | 198,756 | 41,807 | 7,164 | 184,650 | 432,377 |
| Total Assets | $ 1,068,175 | $ 189,947 | $ 29,635 | $ 200,451 | $ 1,488,208 |

| | As at December 31, 2010 | | | | |
|---|---|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | Argentina | Peru | Corporate | Total |
| Property, plant and equipment | $ 654,416 | $ 29,031 | $ 28,578 | $ 14,999 | $ 727,024 |
| Goodwill | 102,581 | - | - | - | 102,581 |
| Other assets | 155,798 | 15,220 | 18,575 | 230,056 | 419,649 |
| Total Assets | $ 912,795 | $ 44,251 | $ 47,153 | $ 245,055 | $ 1,249,254 |

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry. The concentration of credit risk in a single industry affects the Company's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. In 2011, the Company has one significant customer for its Colombian crude oil, Ecopetrol S.A. ("Ecopetrol"), a Colombian government agency. Sales to Ecopetrol accounted for 96% of the Company's revenues in the first quarter of 2011 and 96% in the first quarter of 2010. In Argentina, the Company has one significant customer, Refineria del Norte S.A ("Refiner").

5.Property, Plant and Equipment

| | As at March 31, 2011 | | |
|---|---|---|---|
| (Thousands of U.S. Dollars) | Cost | Accumulated DD&A | Net book value |
| Oil and natural gas properties | | | |
| Proved | $943,475 | $ (398,647 ) | $ 544,828 |
| Unproved | 402,070 | - | 402,070 |
| | 1,345,545 | (398,647 ) | 946,898 |
| Furniture and fixtures and leasehold improvements | 5,253 | (2,940 ) | 2,313 |
| Computer equipment | 6,082 | (2,467 ) | 3,615 |
| Automobiles | 933 | (509 ) | 424 |
| Total Property, Plant and Equipment | $1,357,813 | $ (404,563 ) | $ 953,250 |

| | As at December 31, 2010 | | |
|---|---|---|---|
| (Thousands of U.S. Dollars) | Cost | Accumulated DD&A | Net book value |
| Oil and natural gas properties | | | |
| Proved | $777,262 | $ (334,858 ) | $ 442,404 |
| Unproved | 278,753 | - | 278,753 |
| | 1,056,015 | (334,858 ) | 721,157 |
| Furniture and fixtures and leasehold improvements | 5,233 | (2,831 ) | 2,402 |
| Computer equipment | 5,521 | (2,358 ) | 3,163 |
| Automobiles | 779 | (477 ) | 302 |
| Total Property, Plant and Equipment | $1,067,548 | $ (340,524 ) | $ 727,024 |

Depreciation, depletion, accretion and impairment (“DD&A”) for the three months ended March 31, 2011 includes a ceiling test impairment loss of $31.9 million in Gran Tierra’s Peru cost center. This impairment loss was a result of the inclusion of dry well costs and seismic costs associated with the asset base of the Peru cost center for ceiling test determination purposes. For the three months ended March 31, 2010, a $3.7 million ceiling test impairment loss was included in the Company’s Argentina cost center. This impairment loss was a result of a redetermination of the income tax effect on the present value of future cash inflows used to determine the Argentina ceiling for that country’s ceiling test.

During the three months ended March 31, 2011, the Company capitalized $1.8 million (year ended December 31, 2010 - $4.1 million) of general and administrative expenses related to the Colombian full cost center, including $0.1 million (year ended December 31, 2010 - $0.3 million) of stock based compensation expense, and $0.4 million (year ended December 31, 2010 - $1.2 million) of general and administrative expenses in the Argentina full cost center, including $47,000 (year ended December 31, 2010 - $0.2 million) of stock based compensation.

The unproved oil and natural gas properties at March 31, 2011 consist of exploration lands held in Colombia, Argentina, Peru, and Brazil, including additions related to the newly acquired Petrolifera assets. As at March 31, 2011, the Company had $308.7 million (December 31, 2010 - $228.8 million) of unproved assets in Colombia, $59.0 million (December 31, 2010 - $9.4 million) of unproved assets in Argentina, $21.8 million (December 31, 2010 - $28.2 million) of unproved assets in Peru, and $12.6 million (December 31, 2010 - $12.4 million) of unproved assets in Brazil for a total of $402.1 million (December 31, 2010 - $278.8 million). These properties are being held for their exploration value and are not being depleted pending determination of the existence of proved reserves. Gran Tierra will continue to assess the unproved properties over the next several years as proved reserves are established and as exploration dictates whether or not future areas will be developed.

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6.Share Capital

The Company's authorized share capital consists of 595,000,002 shares of capital stock, of which 570 million are designated as common stock, par value $0.001 per share, 25 million are designated as preferred stock, par value $0.001 per share and two shares are designated as special voting stock, par value $0.001 per share. As at March 31, 2011, outstanding share capital consists of 260,053,351 common voting shares of the Company, 9,148,069 exchangeable shares of Gran Tierra Exchange Co., automatically exchangeable on November 14, 2013, and 7,811,112 exchangeable shares of Goldstrike Exchange Co., automatically exchangeable on November 10, 2012. The exchangeable shares of Gran Tierra Exchange Co, were issued upon acquisition of Solana Resources Limited ("Solana"). The exchangeable shares of Gran Tierra Goldstrike Inc. were issued upon the business combination between Gran Tierra Energy Inc., an Alberta corporation, and Goldstrike, Inc., which is now the Company. Each exchangeable share is exchangeable into one common voting share of the Company. The holders of common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and are entitled to share in all dividends that the Company's board of directors, in its discretion, declares from legally available funds. The holders of common stock have no pre-emptive rights, no conversion rights, and there are no redemption provisions applicable to the common stock. Holders of exchangeable shares have substantially the same rights as holders of common voting shares.

Warrants

At March 31, 2011, the Company had 3,674,932 warrants outstanding to purchase 1,837,466 common shares for $1.05 per share, expiring between June 20, 2012 and June 30, 2012 and 4,125,036 Replacement Warrants outstanding, issued upon the acquisition of Petrolifera (Note 3), to purchase 4,125,036 common shares for CDN$9.67, expiring August 28, 2011. For the three months ended March 31, 2011, 210,000 common shares were issued upon the exercise of 420,000 warrants (three months ended March 31, 2010, 8,118,018 common shares were issued upon the exercise of 9,090,098 warrants). Included in warrants exercised in the three months ended March 31, 2010 were 7,145,938 warrants to purchase 7,145,938 common shares for $14.4 million, assumed on the acquisition of Solana in November 2008.

The fair value of the Replacement Warrants as of March 31, 2011 was determined using the Black-Scholes option pricing model with the following assumptions:

| | | | |
|---|---|---|---|
| Exercise price (CDN dollars per warrant) | $ | 9.67 | |
| Risk-free interest rate | | 1.3 | % |
| Expected life | 0.45 Years | | |
| Volatility | | 44 | % |
| Expected annual dividend per share | Nil | | |
| Estimated fair value per warrant (CDN dollars) | $ | 0.32 | |

Stock Options

As at March 31, 2011, the Company has a 2007 Equity Incentive Plan, formed through the approval by shareholders of the amendment and restatement of the 2005 Equity Incentive Plan, under which the Company's board of directors is authorized to issue options or other rights to acquire shares of the Company's common stock. On November 14, 2008, the shareholders of Gran Tierra approved an amendment to the Company's 2007 Equity Incentive Plan, which increased the number of shares of common stock available for issuance thereunder from 9,000,000 shares to 18,000,000 shares. On June 16, 2010, another amendment to the Company's 2007 Equity Incentive plan was approved by shareholders, which increased the number of shares of common stock available for issuance thereunder from 18,000,000 shares to 23,306,100 shares.

The Company grants options to purchase common shares to certain directors, officers, employees and consultants. Each option permits the holder to purchase one common share at the stated exercise price. The options vest over three years and have a term of ten years, or three months after the grantee's end of service to the Company, whichever occurs first. At the time of grant, the exercise price equals the market price. For the three months ended March 31, 2011, 605,332 common shares were issued upon the exercise of 605,332 stock options (three months ended March 31, 2010 – 1,208,994). The following options were outstanding as of March 31, 2011:

| | Number of Outstanding Options | Weighted Average Exercise Price $/Option |
|---|---|---|
| Balance, December 31, 2010 | 10,943,058 | $ 3.49 |
| Granted in 2011 | 3,219,996 | 8.39 |
| Exercised in 2011 | (605,332) | (2.92) |
| Forfeited in 2011 | (29,167) | (3.96) |
| Balance, March 31, 2011 | 13,528,555 | $ 4.68 |

The weighted average grant date fair value for options granted in the three months ended March 31, 2011 was $5.20 (three months ended March 31, 2010 - $3.33). The intrinsic value of options exercised for the three months ended March 31, 2011 was $3.2 million (three months ended March 31, 2010 - $4.5 million).

The table below summarizes stock options outstanding at March 31, 2011:

| Range of Exercise Prices ($/option) | Number of Outstanding Options | Weighted Average Exercise Price $/Option | Weighted Average Expiry Years |
|---|---|---|---|
| 0.50 to 2.00 | 1,369,171 | $ 1.14 | 5.4 |
| 2.01 to 3.50 | 5,144,552 | 2.46 | 7.5 |
| 3.51 to 5.50 | 466,666 | 4.43 | 8.5 |
| 5.51 to 7.00 | 3,123,170 | 5.92 | 8.9 |
| 7.01 to 8.40 | 3,424,996 | 8.35 | 9.9 |
| Total | 13,528,555 | $ 4.68 | 8.3 |

The aggregate intrinsic value of options outstanding at March 31, 2011 is $46.9 million (December 31, 2010 - $49.9 million) based on the Company’s closing stock price of $8.07 (December 31, 2010 - $8.05) for that date. At March 31, 2011, there was $18.8 million (December 31, 2010 - $6.1 million) of unrecognized compensation cost related to unvested stock options which is expected to be recognized over the next three years. As at March 31, 2011, 5,910,173 (December 31, 2010 – 5,426,367) options were exercisable.

For the three months ended March 31, 2011, the stock based compensation expense was $3.6 million (three months ended March 31, 2010 - $1.4 million) of which $3.2 million (three months ended March 31, 2010 - $1.1 million) was recorded in general and administrative expense and $0.2 million was recorded in operating expense in the consolidated statement of operations (three months ended March 31, 2010 – $0.2 million). For the three months ended March 31, 2011, $0.2 million of stock based compensation was capitalized as part of exploration and development costs (three months ended March 31, 2010 – $0.1 million).

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model based on assumptions noted in the following table. The Company uses historical data to estimate option exercises, expected term and employee departure behavior used in the Black-Scholes option pricing model. Expected volatilities used in the fair value estimate are based on historical volatility of the Company’s stock. The risk-free rate for periods within the contractual term of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Dividend yield (per share) | $nil | $nil |
| Volatility | 81 % | 90 % |
| Risk-free interest rate | 1.4 % | 0.4 % |
| Expected term | 4 - 6 years | 3 years |
| Estimated forfeiture percentage (per year) | 4 % | 10 % |

Weighted average shares outstanding

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Weighted average number of common and exchangeable shares outstanding | 260,930,753 | 248,818,662 |
| Shares issuable pursuant to warrants | 3,203,257 | 5,518,333 |
| Shares issuable pursuant to stock options | 5,894,518 | 5,013,174 |
| Shares to be purchased from proceeds of stock options | (2,208,728 ) | (2,487,063 ) |
| Weighted average number of diluted common and exchangeable shares outstanding | 267,819,800 | 256,863,106 |

Net Income per share

For the three month period ended March 31, 2011, 4,125,036 Replacement Warrants were excluded from the diluted income per share calculation as the instruments were anti-dilutive. For the three months ended March 31, 2010, options to purchase 3,195,000 common shares were excluded from the diluted income per share calculation as the instruments were anti-dilutive.

7.Asset Retirement Obligations

As at March 31, 2011 the Company's asset retirement obligations were comprised of Colombian obligations in the amount of $4.4 million (December 31, 2010 - $3.7 million) and Argentine obligations in the amount of $5.7 million (December 31, 2010 - $1.1 million). As at March 31, 2011, the undiscounted asset retirement obligations were $26.6 million (December 31, 2010 - $8.7 million). Changes in the carrying amounts of the asset retirement obligations associated with the Company's oil and natural gas properties were as follows:

| (Thousands of U.S. Dollars) | Three Months Ended March 31, 2011 | Year Ended December 31, 2010 |
|---|---|---|
| Balance, beginning of period | $ 4,807 | $ 4,708 |
| Settlements | (4 ) | (286 ) |
| Disposal | - | (720 ) |
| Liability incurred | 270 | 719 |
| Liability assumed in a business combination (Note 3) | 4,901 | - |
| Foreign exchange | 5 | 58 |
| Accretion | 122 | 328 |
| Balance, end of period | $ 10,101 | $ 4,807 |
| | | |
| Asset retirement obligations - current | $ 334 | $ 338 |

| | | | | |
|---|---|---|---|---|
| Asset retirement obligations - long term | | 9,767 | | 4,469 |
| Balance, end of period | $ | 10,101 | $ | 4,807 |

8.Income Taxes

The income tax expense reported differs from the amount computed by applying the U.S. statutory rate to income before income taxes for the following reasons:

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2011 | 2010 |
| Income before income taxes | $ 40,409 | $ 21,142 |
| | 35 % | 35 % |
| Income tax expense expected | 14,143 | 7,400 |
| Other permanent differences | 4,065 | (612 ) |
| Foreign currency translation adjustments | 1,981 | 4,166 |
| Impact of foreign taxes | (1,598 ) | (840 ) |
| Enhanced tax depreciation incentive | - | (1,292 ) |
| Stock based compensation | 1,143 | 449 |
| Increase in valuation allowance | 15,288 | 1,721 |
| Branch and other foreign income pick-up in the United States and Canada | (1,619 ) | (1,248 ) |
| Non-deductible third party royalty in Colombia | 1,820 | 1,438 |
| Non-taxable gain on bargain purchase | (8,527 ) | - |
| Total income tax expense | $ 26,696 | $ 11,182 |
| | | |
| Current income tax | 26,677 | 21,236 |
| Deferred tax (recovery) | 19 | (10,054 ) |
| Total income tax expense | $ 26,696 | $ 11,182 |

| (Thousands of U.S. Dollars) | March 31, 2011 | As at December 31, 2010 |
|---|---|---|
| Deferred Tax Assets | | |
| Tax benefit of loss carryforwards | $45,317 | $ 27,527 |
| Tax basis in excess of book basis | 21,459 | 7,975 |
| Foreign tax credits and other accruals | 23,520 | 16,895 |
| Capital losses | 1,453 | 1,413 |
| Deferred tax assets before valuation allowance | 91,749 | 53,810 |
| Valuation allowance | (87,140 ) | (48,958 ) |
| | $4,609 | $ 4,852 |
| | | |
| Deferred tax assets - current | $2,112 | $ 4,852 |
| Deferred tax assets - long term | 2,497 | - |
| | 4,609 | 4,852 |
| | | |
| Deferred Tax Liabilities | | |
| Long-term - book value in excess of tax basis | (216,697 ) | (204,570 ) |
| | | |
| Net Deferred Tax Liabilities | $(212,088 ) | $ (199,718 ) |

Equity tax for the current quarter of $8.1 million represents a Colombian tax of 6.2% on the balance sheet equity recorded in our Colombia branches at January 1, 2011. The equity tax is assessed every four years. The tax for the four-year period from 2011 to 2014 is payable in eight semi-annual installments over the four-year period but is expensed in the first quarter of 2011 at the commencement of the four-year period. Accordingly, the equity tax expense for the previous four-year period was recorded prior to 2010 and no expense is recorded in the first quarter of 2010.

The Company was required to calculate a deferred remittance tax in Colombia based on 7% of profits not reinvested in the business on the presumption that such profits would be transferred to the foreign owners up to December 31, 2006. As of January 1, 2007, the Colombian government rescinded this law; therefore, no further remittance tax liabilities will be accrued. The historical balance which was included in the Company's financial statements as of March 31, 2011 was $0.5 million (December 31, 2010 - $0.5 million).

As at March 31, 2011, the total amount of Gran Tierra's unrecognized tax benefits was approximately $16.6 million, a portion of which, if recognized, would affect the Company's effective tax rate. To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income taxes in the consolidated statement of operations. As at March 31, 2011, the total amount of interest and penalties included in unrecognized tax benefits in deferred and current income tax liabilities in the condensed consolidated balance sheet was approximately $1.9 million. The Company had no interest or penalties included in the consolidated statement of operations for the three months ended March 31, 2011.

Changes in the Company's Unrecognized Tax Benefit are as Follows:

| (Thousands of U.S. Dollars) | |
|---|---|
| Unrecognized tax benefit at January 1, 2011 | $ 4,175 |
| Additions to tax position related to prior years | 70 |
| Additions to tax position related to the current year | 12,364 |
| Balance at March 31, 2011 | $ 16,609 |

The Company and its subsidiaries file income tax returns in the U.S. federal and state jurisdictions and certain other foreign jurisdictions. The Company is subject to income tax examinations for the calendar tax years ended 2005 through 2010 in most jurisdictions. It does not anticipate any material changes to the unrecognized tax benefits previously disclosed within the next twelve months.

As at March 31, 2011, the Company has deferred tax assets relating to net operating loss carryforwards of $45.3 million (December 31, 2010 - $27.5 million) and capital losses of $1.5 million (December 31, 2010 - $1.4 million) before valuation allowances. Of these losses, $36.6 million (December 31, 2010 - $20.5 million) are losses generated by the foreign subsidiaries of the Company. Of the total losses, $0.1 million (December 31, 2010 - $nil) will expire at the end of 2011, $1.5 million will begin to expire in 2012 (December 31, 2010 - $nil) and $45.2 million (December 31, 2010 - $28.9 million) will begin to expire thereafter.

9.Accounts Payable and Accrued Liabilities

The balances in accounts payable and accrued liabilities and are comprised of the following:

| | As at March 31, 2011 | | | | |
|---|---|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | Argentina | Peru | Corporate | Total |
| Property, plant and equipment | $31,971 | $10,670 | $8,274 | $1,379 | $52,294 |
| Payroll | 2,567 | 322 | 76 | 1,525 | 4,490 |
| Audit, legal, and consultants | 5 | 219 | - | 2,060 | 2,284 |
| General and administrative | 2,503 | 102 | 145 | 446 | 3,196 |
| Operating | 35,254 | 5,606 | 373 | - | 41,233 |
| Total | $72,300 | $16,919 | $8,868 | $5,410 | $103,497 |

| | As at December 31, 2010 | | | | |
|---|---|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | Argentina | Peru | Corporate | Total |
| Property, plant and equipment | $32,854 | $10,452 | $8,377 | $1,438 | $53,121 |
| Payroll | 3,256 | 186 | - | 2,300 | 5,742 |
| Audit, legal, and consultants | - | 140 | 16 | 1,676 | 1,832 |
| General and administrative | 1,039 | 590 | 70 | 363 | 2,062 |
| Operating | 43,037 | 2,141 | 173 | 35 | 45,386 |
| Total | $80,186 | $13,509 | $8,636 | $5,812 | $108,143 |

10. Commitments and Contingencies

Leases

Gran Tierra holds four categories of operating leases: compressor, office, vehicle and equipment and housing. The Company pays monthly amounts of $0.1 million for a compressor, $0.2 million for office leases, $12,000 for vehicle and equipment leases and $8,000 for certain employee accommodation leases in Canada, Colombia, Argentina, Peru, and Brazil. Future lease payments at March 31, 2011 are as follows:

| | As at March 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Payments Due in Period | | | | |
| Contractual Obligations | Total | Less than 1 Year | 1 to 3 years | 3 to 5 years | More than 5 years |
| (Thousands of U.S. Dollars) | | | | | |
| Operating leases | $7,835 | $3,151 | $3,044 | $1,640 | $- |
| Bank debt | 31,250 | 31,250 | - | - | - |
| Software and Telecommunication | 1,228 | 1,033 | 195 | - | - |
| Drilling, Completion, Facility Construction and Oil Transportation Services | 64,571 | 48,301 | 16,270 | - | - |
| Consulting | 317 | 317 | - | - | - |
| Total | $105,201 | $84,052 | $19,509 | $1,640 | $- |

Guarantees

Corporate indemnities have been provided by the Company to directors and officers for various items including, but not limited to, all costs to settle suits or actions due to their association with the Company and its subsidiaries and/or affiliates, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The maximum amount of any potential future payment cannot be reasonably estimated.

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

Contingencies

Ecopetrol and Gran Tierra Energy Colombia Ltd. "Gran Tierra Colombia", the contracting parties of the Guayuyaco Association Contract, are engaged in a dispute regarding the interpretation of the procedure for allocation of oil produced and sold during the long term test of the Guayuyaco-1 and Guayuyaco-2 wells. There is a material difference in the interpretation of the procedure established in Clause 3.5 of Attachment-B of the Guayuyaco Association Contract. Ecopetrol interprets the contract to provide that the extended test production up to a value equal to 30% of the direct exploration costs of the wells is for Ecopetrol's account only and serves as reimbursement of its 30% back-in to the Guayuyaco discovery. Gran Tierra Colombia's contention is that this amount is merely the recovery of 30% of the direct exploration costs of the wells and not exclusively for benefit of Ecopetrol. There has been no agreement between the parties, and Ecopetrol has filed a lawsuit in the Contravention Administrative Court in the District of Cauca regarding this matter. Gran Tierra Colombia filed a response on April 29, 2008 in which it refuted all of Ecopetrol's claims and requested a change of venue to the courts in Bogotá. At this time no amount has been accrued in the financial statements as the Company does not consider it probable that a loss will be incurred. Ecopetrol is claiming damages of approximately $5.5 million.

Gran Tierra is subject to a third party 10% net profits interest on 50% of the Company's production from the Costayaco field that arises from the original acquisition in 2006 of 50% of Gran Tierra's interest in the Chaza Block Contract. There is currently a disagreement between Gran Tierra and the third party as to the calculation of the net profits interest. Gran Tierra and the third party have agreed to resolve this issue through an arbitration which is

anticipated to be heard in Texas, in accordance with the rules of the American Arbitration Association, in the fourth quarter of 2011. At this time no amount has been accrued in the financial statements as the Company does not consider it probable that a loss will be incurred. The disputed amount at March 31, 2011 is $5.4 million.

Gran Tierra has several lawsuits and claims pending for which the Company currently cannot determine the ultimate result. Gran Tierra records costs as they are incurred or become determinable. Gran Tierra believes the resolution of these matters would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

11. Financial Instruments, Fair Value Measurements and Credit Risk

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, restricted cash, accounts receivable, ABCP, accounts payable, accrued liabilities, bank debt and derivative financial instruments. The estimated fair values of the financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies. Certain of Gran Tierra's assets and liabilities are reported at fair value in the accompanying consolidated balance sheets. As at March 31, 2011, the fair values of financial instruments approximate their book amounts due to the short term maturity of these instruments except as discussed below.

None of the Company's derivative instruments currently qualify as fair value hedges or cash flow hedges, and accordingly, changes in fair value of the derivative instruments are recognized as income or expense in the consolidated statement of operations and retained earnings with a corresponding adjustment to the fair value of derivative instruments recorded on the balance sheet. The derivative instruments include the Replacement Warrants (Notes 3 and 6) and a crude oil collar which expired in February 2010.

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 on the hierarchy consist of unadjusted quoted prices 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. When available, Gran Tierra measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

As at the Acquisition Date and as at March 31, 2011, the Company held investments with a face value of $6.6 million and a carrying value of $nil comprised of ineligible master asset vehicles Classes 1 & 2 ("MAV IA 1 & 2") notes. These notes, which were received by Petrolifera in 2009 in exchange for ABCP, were provided as a security for a related ABCP backed line of credit (Note 12) which was drawn at $5.0 million as at the Acquisition Date and as at March 31, 2011. The fair value of these notes receivable at the Acquisition Date and March 31, 2011 is $nil as there is no active market for these notes. The Company classified these notes received in exchange for ABCP, and ABCP secured line of credit as Level 2.

The Company does not have any assets or liabilities whose fair value is measured using the Level 1method. The Company classifies the Replacement Warrants (Notes 3 and 6) as Level 3 and measured their fair values as discussed in Note 6.

Most of the Company's accounts receivable relate to oil and natural gas sales and are exposed to typical industry credit risks. The Company manages this credit risk by entering into sales contracts with only credit worthy entities and reviewing its exposure to individual entities on a regular basis. The book value of the accounts receivable reflects management's assessment of the associated credit risks.

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and natural gas industry. The concentration of credit risk in a single industry affects the Company's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. For the three months

ended March 31, 2011, the Company had one significant customer for its Colombian crude oil, Ecopetrol. In Argentina, the Company had one significant customer, Refiner.

Additionally, foreign exchange gains/losses result from the fluctuation of the U.S. dollar to the Colombian peso due to Gran Tierra's deferred tax liability, a monetary liability, which is denominated in the local currency of the Colombian foreign operations. As a result, a foreign exchange gain/loss must be calculated on conversion to the U.S. dollar functional currency. A strengthening in the Colombian peso against the U.S. dollar results in foreign exchange losses, estimated at $110,000 for each one peso decrease in the exchange rate of the Colombian peso to one U.S. dollar.

12. Bank Debt and Credit Facilities

The balances of bank debt are comprised of the following:

| (Thousands of U.S. Dollars) | Three Months Ended March 31, 2011 | | Year Ended December 31, 2010 | |
|---|---|---|---|---|
| Current bank debt | | | | |
| Reserve-backed credit facility | $ | 31,250 | $ | - |
| Balance, end of period | $ | 31,250 | $ | - |

Effective July 30, 2010, a subsidiary of Gran Tierra, Solana, established a credit facility with BNP Paribas for a three-year term which may be extended or amended by agreement between the parties. This reserve based facility has a maximum borrowing base up to $100.0 million and is supported by the present value of the petroleum reserves of the Company's two subsidiaries with operating branches in Colombia – Gran Tierra Energy Colombia Ltd. and Solana Petroleum Exploration (Colombia) Ltd. The initial committed borrowing base is $20 million. Amounts drawn down under the facility bear interest at the U.S. dollar LIBOR rate plus 3.5%. In addition, a stand-by fee of 1.50% per annum is charged on the unutilized balance of the committed borrowing base and is included in general and administrative expense. Under the terms of the facility, the Company is required to maintain and was in compliance with certain financial and operating covenants. As at March 31, 2011, the Company had not drawn down any amounts under this facility.

As part of the acquisition of Petrolifera on March 18, 2011, Gran Tierra assumed a $100.0 million reserve-backed credit facility with available and outstanding balance as at the Acquisition Date and March 31, 2011 of $31.3 million. This credit facility agreement with a syndicate of banks expires on June 30, 2012. Gran Tierra is required to make three scheduled reserve deposits of $3.8 million per quarter through September 30, 2011 at which time those deposits are applied to repay part of the principal. Two additional principal repayments of $3.8 million are to be made at the end of each of the following quarters with the final settlement of $12 million to be made June 30, 2012 when this agreement expires. As of March 31, 2011, $4.3 million, which includes $0.5 million reserved prior to the acquisition, has been placed in reserve and is recorded as restricted cash in current assets in the Company's condensed consolidated balance sheet. Under the terms of this credit facility agreement, one-half of any potential farmout proceeds received by Gran Tierra related to Petrolifera's Argentine assets, up to a maximum of $5.0 million, are to be first allocated to reduce the final $12.0 million permanent debt repayment due and payable upon expiry of the agreement in June 2012. Any excess farmout proceeds are then to be evenly allocated to reduce Gran Tierra's quarterly reserve payments or debt repayments. The credit facility bears interest at LIBOR plus 8.25%, is partially secured by the pledge of the shares of Petrolifera's subsidiaries and has a provision for a borrowing base adjustment every six months. This facility is currently under review, with any adjustment to the borrowing base calculated based on information as at December 31, 2010. Gran Tierra accounts for this credit facility at amortized cost.

Under the terms of the facility, the Company is required to maintain and was in compliance with certain financial and operating covenants. Gran Tierra has classified this credit facility as current as the Company intends to repay the credit facility at the first opportunity in August of 2011. A regulation of the Argentine Central Bank establishes that "new indebtedness and renewals of debts with foreign creditors engaged by local residents shall be kept for a minimum 365 days". Petrolifera entered into an amendment of this credit facility on August 4, 2010, which then renewed and restructured the existing debt. As a result, the principal debt that was loaned into Argentina cannot be repaid and retired until August 2011.

Upon the acquisition of Petrolifera, Gran Tierra assumed an ABCP line of credit with a Canadian Chartered Bank, to a maximum of CDN$23.2 million, which is included as part of net working capital in the allocation of consideration transferred, with an initial expiry in April 2012. Gran Tierra settled this line of credit immediately after the completion of the acquisition of Petrolifera for the face value of CDN$22.5 million in borrowings plus accrued interest (Note 3).

Also upon the acquisition of Petrolifera, Gran Tierra assumed a second line of credit agreement ("Second ABCP line of credit") with the same Canadian chartered bank to a maximum of CDN$5.0 million, which was fully drawn as at the Acquisition Date and March 31, 2011. This Second ABCP line of credit, which expired on April 8, 2011, was secured by the MAV IA 1 & 2 notes. Gran Tierra retained the option to settle the Second ABCP line of credit of CDN$5.0 million in borrowings, as drawn on this facility, through delivery to the lender of the MAV IA 1 & 2 notes. Subsequent to the acquisition, Gran Tierra elected to record this second line of credit at fair value and planned at that time to settle the debt through delivery of the MAV IA 1 & 2 notes upon expiry. Accordingly, a value of $nil was recorded for the debt upon its acquisition and at March 31, 2011 (Note 11). Gran Tierra settled such borrowings by delivery of the MAV IA 1 & 2 notes on April 8, 2011.

Interest expense on the facilities for the 13 day period from the Acquisition Date to March 31, 2011 was $0.1 million. This amount is recorded on the Consolidated Statements of Operations and Retained Earnings as part of general and administrative expense.

13. Related Party Transaction

On February 1, 2009, the Company entered into a sublease for office space with a company, of which one of Gran Tierra's directors is a shareholder and director. The term of the sublease runs from February 1, 2009 to August 31, 2011 and the sublease payment is $9,000 per month plus approximately $5,000 for operating and other expenses. The terms of the sublease were consistent with market conditions in the Calgary, Alberta, Canada real estate market.

On August 3, 2010, Gran Tierra entered into a contract related to the Peru drilling program with a company of which one of Gran Tierra's directors is a shareholder and director. For the three months ended March 31, 2011, $2.0 million was capitalized and at March 31, 2011, $1.4 million was included in accounts payable related to this contract, the terms of which are consistent with market conditions.

On January 12, 2011, the Company entered into an agreement to sublease office space to a company of which Gran Tierra's President and Chief Executive Officer serves as an independent Director. The term of the sublease runs from February 1, 2011 to January 30, 2013 and, at $5,000 per month plus approximately $6,000 of operating and other expense, the terms are consistent with market conditions in the Calgary, Alberta, Canada real estate market.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Information

This report contains forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q, including without limitation, statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our projected financial position and results, estimated quantities values of reserves, business strategy, plans and objectives of our management for future operations and those statements preceded by, followed by or that otherwise include the words "believe", "expects", "anticipates", "intends", "estimates", "proje "target", "goal", "plans", "objective", "should", or similar expressions or variations on such 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. 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, those set out in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q. Except as otherwise required by the federal securities laws, we disclaim any obligations 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 such statement is based.

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 Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 25, 2011.

Overview

We are an independent international energy company incorporated in the United States and engaged in oil and natural gas acquisition, exploration, development and production. We are headquartered in Calgary, Alberta, Canada and operate in South America in Colombia, Argentina, Peru, and Brazil.

In September 2005, we acquired our initial oil and gas interests and properties, which were in Argentina. During 2006, we increased our oil and gas interests and property base through further acquisitions in Colombia, Argentina and Peru. We funded acquisitions of our properties in Colombia and Argentina through a series of private placements of our securities that occurred between September 2005 and June 2006.

In 2007, we made a new field discovery, Costayaco, in the Chaza Block of the Putumayo Basin in Colombia.

Effective November 14, 2008, we completed the acquisition of Solana Resources Limited ("Solana"), an international resource company engaged in the acquisition, exploration, development and production of oil and natural gas in Colombia and incorporated in Alberta, Canada. At the date of acquisition, Solana held various working interests in nine blocks in Colombia including a 50% working interest in the Chaza Block, which includes the Costayaco field, and a 35% working interest in the Guayuyaco Block, which includes the Juanambu field.

During the third quarter of 2009, we opened a business development office in Rio de Janeiro, Brazil.

In June 2010, we expanded our land position in the Putumayo Basin and added new frontier exploration acreage in Colombia through successful bids on three blocks in Colombia. In August and October 2010, respectively, we made new Colombian field discoveries in Moqueta in the Chaza Block (Putumayo Basin) and Jilguero in the Garibay Block. Also in August 2010, we finalized a farm-in agreement with Alvorada Petroleo S.A. relating to the on-shore Reconcavo Basin in Brazil, pending regulatory approval from Brazil’s Agencia nacional de Petroleo Gas natural e Bioncombustiveis (“ANP”). In Peru, in September 2010, we acquired a 20% working interest in three blocks and, in December 2010, we acquired a 60% interest in one block. Both transactions in Peru are subject to government approval and final assignment of interests.

On January 17, 2011, we announced that we had entered into an Arrangement Agreement to acquire Petrolifera Petroleum Ltd. (“Petrolifera”). The Arrangement Agreement received Petrolifera shareholder and regulatory, stock exchange and court approvals, and closed on March 18, 2011. Petrolifera is a Canadian based international oil and gas company listed on the Toronto Stock Exchange which owns working interests in 11 exploration and production blocks; three located in Colombia, three in Peru and five in Argentina. See “Business Combination” below for further details of this transaction.

Business Combination

On March 18, 2011 (the “Acquisition Date”), we completed our acquisition of all the issued and outstanding common shares and warrants of Petrolifera pursuant to the terms and conditions of the Arrangement Agreement dated January 17, 2011 (the “Arrangement”). Petrolifera is a Calgary-based crude oil, natural gas and natural gas liquids exploration, development and production company active in Argentina, Colombia and Peru. The transaction contemplated by the Arrangement was effected through a court-approved plan of arrangement in Canada. The Arrangement was approved at a special meeting of Petrolifera shareholders on March 17, 2011 and the Court of Queen’s Bench of Alberta issued its Final Order approving the plan of arrangement on the Acquisition Date.

Under the Arrangement, Petrolifera shareholders received, for each Petrolifera share held, 0.1241 of a share of Gran Tierra common stock, and Petrolifera warrant holders received, for each Petrolifera warrant held, 0.1241 of a common share purchase warrant of Gran Tierra (“Replacement Warrants”) to purchase a share of Gran Tierra common stock at an exercise price of CAD $9.67 per share. Gran Tierra Replacement Warrants expire on August 28, 2011. Gran Tierra has acquired all the issued and outstanding Petrolifera shares and warrants through the issuance of 18,075,047 Gran Tierra common shares, par value $0.001, and 4,125,036 Replacement Warrants. Upon completion of the transaction on March 18, 2011, Petrolifera became an indirect wholly owned subsidiary of Gran Tierra. On a diluted basis, upon the closing the Arrangement, Petrolifera security holders owned approximately 6.6% and the Gran Tierra security holders immediately prior to the transaction owned approximately 93.4% of the Company immediately following the transaction. The total consideration for the transaction is approximately $143.0 million.

The acquisition is accounted for using the acquisition method, with Gran Tierra being the acquirer, whereby Petrolifera’s assets acquired and liabilities assumed are recorded at their fair values as at the Acquisition Date and the results of Petrolifera are consolidated with those of Gran Tierra from that date.

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

| (Thousands of U.S. Dollars) | |
|---|---|
| Consideration Transferred: | |
| Common shares issued net of share issue costs | $141,690 |
| Replacement Warrants | 1,354 |
| | $143,044 |
| | |
| Allocation of Consideration Transferred (1): | |
| Oil and gas properties | |
| Proved | $58,457 |
| Unproved | 161,278 |
| Other long term assets | 4,417 |
| Net working capital (including cash acquired of $7.7 million and accounts receivable of $6.4 million) | (14,622) |
| Asset retirement obligations | (4,901) |
| Bank debt | (22,853) |
| Other long term liabilities | (14,432) |

| | |
|---|---|
| Gain on acquisition | (24,300) |
| | $143,044 |

(1) The allocation of the consideration transferred is not final and is subject to change.

As indicated in the allocation of the consideration transferred, the fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of the consideration transferred. Consequently, Gran Tierra reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate. As a result, Gran Tierra recognized a “Gain on acquisition” of $24.3 million in the consolidated statement of operations. The gain reflects the impact on Petrolifera’s pre-acquisition market value resulting from their lack of liquidity and capital resources required to maintain current production and reserves and further develop and explore their inventory of prospects.

As part of the net working capital acquired, we assigned $22.5 million in fair value to investments in notes that Petrolifera received in exchange for Asset Backed Commercial Paper (“ABCP”) with a face value of $31.3 million. On March 28, 2011, these notes were sold for proceeds of $22.7 million after the associated line of credit was settled.

As part of the acquisition, we assumed a $100.0 million reserves backed credit facility bearing interest at LIBOR plus 8.25%, with an available and outstanding balance of $31.3 million upon closing. This amount has not been repaid due to a 365-day restriction of the Argentine Central Bank which elapses on August 4, 2011. Because we plan to repay the debt on or around that date, the debt has been classified as current and included in net working capital acquired.

The acquisition was effective March 18, 2011 and, accordingly, only twelve days of Petrolifera operations are included in the consolidated results of Gran Tierra. Consequently, the acquisition did not have a material effect on results of operations of the Company for the first quarter of 2011, except for the gain on acquisition.

Financial and Operational Highlights
(Thousands of U.S. Dollars, Except Per Share Amounts)

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2011 | 2010 | % Change |
| Production - Barrels of Oil Equivalent ("boe") per Day (1) | 14,546 | 14,949 | (3 ) |
| Prices Realized - per boe | $93.41 | $69.07 | 35 |
| Revenue and Other Income ($000s) | $122,519 | $93,110 | 32 |
| Net Income ($000s) | $13,713 | $9,960 | 38 |
| Net Income Per Share - Basic | $0.05 | $0.04 | 25 |
| Net Income Per Share - Diluted | $0.05 | $0.04 | 25 |
| Funds Flow From Operations ($000s) (2) | $66,560 | $54,274 | 23 |
| Capital Expenditures ($000s) | $69,103 | $19,504 | 254 |

| | March 31, 2011 | As at December 31, 2010 | % Change |
|---|---|---|---|
| Cash & Cash Equivalents ($000s) | $253,901 | $ 355,428 | (29 ) |
| Working Capital (including cash & cash equivalents) ($000s) | $224,564 | $ 265,835 | (16 ) |
| Property, Plant & Equipment ($000s) | $953,250 | $ 727,024 | 31 |

(1) Gas volumes are converted to boes at the rate of six thousand cubic feet ("mcf") of gas per barrel of oil, based upon the approximate relative energy content of gas and oil. The conversion ratio does not assume price equivalency and the price for a barrel of oil equivalent for natural gas may differ significantly from the price of a barrel of oil.

(2) Funds flow from operations is a non-GAAP measure which does not have any standardized meaning prescribed under United States Generally Accepted Accounting Principles ("GAAP"). Management uses this financial measure to analyze operating performance and the income (loss) generated by Gran Tierra's principal business activities prior to the consideration of how non-cash items affect that income (loss), and believes that this financial measure is also useful supplemental information for investors to analyze operating performance and Gran Tierra's financial results. Investors should be cautioned that this measure should not be construed as an alternative to net income (loss) or other measures of financial performance as determined in accordance with GAAP. Gran Tierra's method of calculating this measure may differ from other companies and, accordingly, it may not be comparable to similar measures used by other companies. Funds flow from operations, as presented, is net income (loss) adjusted for depletion, depreciation, accretion and impairment ("DD&A"), deferred taxes, stock based compensation, unrealized loss (gain) on financial instruments, unrealized foreign exchange losses (gains), equity tax and gain on acquisition. A reconciliation from funds flow from operations to net income is as follows:

| Funds Flow From Operations - Non-GAAP Measure ($000s) | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| Net income | $ 13,713 | $ 9,960 |
| Adjustments to reconcile net income to funds flow from operations | | |
| Depletion, depreciation, accretion and impairment | 63,357 | 40,343 |
| Deferred taxes | (187 ) | (10,054 ) |
| Stock-based compensation | 3,453 | 1,362 |
| Unrealized gain on financial instruments | (62 ) | (44 ) |
| Unrealized foreign exchange loss | 4,458 | 12,707 |
| Settlement of asset retirement obligations | (4 ) | - |
| Equity taxes payable long term | 6,132 | - |
| Gain on acquisition | (24,300 ) | - |
| Funds flows from operations | $ 66,560 | $ 54,274 |

Financial Highlights for Three Months Ended March 31, 2011

In the first quarter of 2011, oil and gas production (net after royalty and inventory adjustments) averaged 14,546 barrels of oil equivalent per day ("BOEPD"), a 3% decrease compared to the same period in 2010, due to pipeline maintenance in Colombia between December 28, 2010 to February 7, 2011 which restricted sales from the Costayaco field in the Chaza Block where Gran Tierra has a 100% working interest.

Revenue and other income increased by 32% over the same period in 2010 due to a 36% increase in realized oil prices compared to the same period in 2010, partially offset by lower production.

Net income of $13.7 million, or $0.05 per share basic and diluted, compares to net income of $10.0 million, or $0.04 per share basic and diluted, in the first quarter of 2010. The net income was primarily as a result of the $24.3 gain on acquisition of Petrolifera offset by increased operating, general and administrative ("G&A") expenses, tax expense and a $31.9 million ceiling test impairment in the Peru cost center.

Funds flow from operations for the three months ended March 31, 2011 increased 23% over the same period in the prior year primarily as a result of the 36% improvement in the realized oil price offset by higher operating and G&A expenses and slightly lower production.

Oil and gas property expenditures for the first quarter of 2011 include the successful drilling of the Moqueta –4 well in the Chaza Block and facility construction and drilling site preparations in the Costayaco field in the Chaza Block, Colombia.  Also included are drilling costs for the dry and abandoned exploration wells, Taruka-1, Pacayaco-1, San Angel-1, and  Canangucho -1 in Colombia, Kanatari-1in Peru, and the GTE.St.VMor-2001 sidetrack operation in Argentina, which was suspended in February 2011 and is being abandoned.

Our cash and cash equivalents position of $253.9 million at March 31, 2011 decreased from $355.4 million at December 31, 2010 primarily as a result of year-to-date capital expenditures.

Working capital (including cash and cash equivalents) was $224.6 million at March 31, 2011, which is a $41.3 million decrease from December 31, 2010, due mainly to bank debt acquired in the Petrolifera transaction during the quarter and an increase in taxes payable.

Property, plant and equipment as at March 31, 2011 was $953.3 million, an increase of $226.2 million from December 31, 2010, as a result of additions from the Petrolifera acquisition and the capital expenditure program, partially offset by DD&A.

Operational Highlights for the Three Months Ended March 31, 2011

Colombia

Moqueta Field, Chaza Block (100% working interest and Operator)

The Moqueta-4 development well was completed and tested in the first quarter of 2011 and confirmed oil bearing reservoirs in the Villeta T-Sandstone, the Lower U Sandstone and the Caballos formations. The Moqueta-5 development well spud in April 2011 and test results are expected in late May 2011.  The targeted reservoirs were penetrated approximately 50 feet deeper than in Moqueta-4, increasing the reserve potential of the field.

Construction of the Moqueta to Costayaco pipeline commenced in the second quarter of 2011 and first oil production from Moqueta is expected late in the second quarter of 2011.  Production from Moqueta is expected to be moderate

until gas compression facilities are installed late in 2011.

Costayaco Field, Chaza Block (100% working interest and Operator)

Drilling operations concluded in the first quarter of 2011 on the Costayaco-12 and -13 development wells, which were drilled as infill production wells to test the respective northern and southern extensions of the Costayaco field. Production from the Costayaco-12 and -13 wells is intended to assist in maintaining production plateau at the Costayaco field; these wells will be converted to water-injectors to assist with pressure maintenance in the field later in the Costayaco field life.

Canangucho Prospect, Chaza Block (100% working interest and Operator)

The Canangucho-1 exploration well reached total depth on March 23, 2011. After the evaluation of wireline logs, it was determined that the T-Sandstone and Caballos formations were water bearing and the well was plugged and abandoned.

Juanambu Field, Guayuyaco Block (70% working interest and Operator)

The Juanambu-3 development well began drilling on March 3, 2011. Drilling operations were completed in April, 2011 and the well is awaiting testing.

Taruka Prospect, Piedemonte Sur Block (100% working interest and Operator)

The Taruka-1 exploration well reached total depth on February 7, 2011. The target reservoirs were encountered, but with only poor oil shows. The well was plugged and abandoned.

Lower Magdalena Basin, Magdalena Block (100% working interest and Operator)

Drilling and logging of the San Angel-1 natural gas exploration well in the Magdalena Block of the Lower Magdalena Basin was completed at the end of March 2011. Testing operations produced water and non-commercial amounts of gas and the well was plugged and abandoned.

Rumiyaco Prospect, Rumiyaco Block (100% working interest and Operator)

Environmental permitting has been approved for the Rumiyaco-1 exploration well in the Rumiyaco Block of the Putumayo basin. Civil construction work started in April 2011 and the well is expected to begin drilling in the third quarter of 2011.

Argentina

Valle Morado Field, Valle Morado Block (100% working interest and Operator)

The sidetrack drilling operation on the Valle Morado GTE.St.VMor-2001 well was suspended in February 2011 and the well is being abandoned due to a number of operational challenges encountered. We plan to drill a vertical well into this gas field in 2012.

Noreste Basin, Santa Victoria Block (50% working interest and Operator)

We successfully farmed out a 50% interest in the Santa Victoria Block in the Noroeste Basin of northwestern Argentina to Apache Corporation (“Apache”) in March 2011. We have agreed to proceed with Apache into the second exploration phase with Apache, which has a work commitment that will be fulfilled with an exploration well. The

joint venture, with Gran Tierra as operator, is interested in testing the gas potential of the acreage, with gas-condensate reserves and production proven in the region.

Peru

Kanatari Prospect, Block 128 (100% working interest and Operator)

The Kanatari-1 exploration well reached total depth on March 3, 2011. No oil or gas shows were noted during drilling and interpretations from wireline logs indicate the reservoirs are water bearing. Kanatari-1 was plugged and abandoned.

Blocks 123, 124, and 129 (20% non-operated working interest)

In September 2010, we acquired a 20% non-operated working interest in ConocoPhilips operated Block 123, Block 124 and Block 129, subject to government approval. The approval for these blocks was granted in March 2011 with final assignment completed on April 26, 2011. We are evaluating the prospectivity of these blocks based on recently acquired 2-D seiemic data.

Brazil

Blocks REC-T-129, REC-T-142, REC-T-155, and REC-T-224 (70% working interest and Operator)

In April 2011, Gran Tierra received final approvals for Blocks -129, -142 and -224 and expects regulatory approval for Block 155 shortly. Block REC-T-155 is currently producing and consequently we will be recording revenue and production from Brazil beginning from the date of approval.

| Consolidated Results of Operations | Three Months Ended March 31, 2011 | 2010 | % Change |
|---|---|---|---|
| (Thousands of U.S. Dollars) | | | |
| Oil and natural gas sales | $122,296 | $92,932 | 32 |
| Interest | 223 | 178 | 25 |
| | 122,519 | 93,110 | 32 |
| | | | |
| Operating expenses | 16,396 | 10,185 | 61 |
| Depletion, depreciation, accretion, and impairment | 63,357 | 40,343 | 57 |
| General and administrative expenses | 13,638 | 7,190 | 90 |
| Equity tax | 8,050 | - | - |
| Foreign exchange loss | 5,199 | 14,294 | 64 |
| Gain on acquisition | (24,300) | - | - |
| Financial instruments gain | (230) | (44) | 422 |
| | 82,110 | 71,968 | 14 |
| | | | |
| Income before income taxes | 40,409 | 21,142 | 91 |
| Income tax expense | (26,696) | (11,182) | 139 |
| Net income | $13,713 | $9,960 | 38 |
| Production, Net of Royalties | | | |
| | | | |
| Oil and NGL's ("bbl") (1) | 1,293,453 | 1,341,682 | (4) |
| Natural gas ("mcf") (1) | 94,317 | 22,518 | 319 |
| Total production ("boe") (1) (2) | 1,309,173 | 1,345,435 | (3) |

Average Prices

| | | | |
|---|---|---|---|
| Oil and NGL's ("per bbl") | $94.31 | $69.20 | 36 |
| Natural gas ("per mcf") | $3.35 | $3.90 | (14) |

Consolidated Results of Operations ("per boe")

| | | | |
|---|---|---|---|
| Oil and natural gas sales | $93.41 | $69.07 | 35 |
| Interest | 0.17 | 0.13 | 31 |
| | 93.58 | 69.20 | 35 |
| | | | |
| Operating expenses | 12.52 | 7.57 | 65 |
| Depletion, depreciation, accretion, and impairment | 48.39 | 29.99 | 61 |
| General and administrative expenses | 10.42 | 5.34 | 95 |
| Equity tax | 6.15 | - | - |
| Foreign exchange loss | 3.97 | 10.62 | 63 |
| Gain on acquisition | (18.56) | - | - |
| Financial instruments gain | (0.18) | (0.03) | 500 |
| | 62.71 | 53.49 | 17 |
| | | | |
| Income before income taxes | 30.87 | 15.71 | 96 |
| Income tax expense | (20.39) | (8.31) | 145 |
| Net income | $10.48 | $7.40 | 42 |

(1) Gas volumes are converted to barrel of oil equivalent (“boe”) at the rate of six thousand cubic feet (“mcf”) of gas per barrel of oil, based upon the approximate relative energy content of gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. Natural gas liquids (“NGL”) volumes are converted to boe on a one-to-one basis with oil.
(2) Production represents production volumes adjusted for inventory changes.

Consolidated Results of Operations for the Three Months Ended March 31, 2011 compared to the Results for the Three Months Ended March 31, 2010

Net income of $13.7 million, or $0.05 per share basic and diluted, was recorded for the three months ended March 31, 2011 compared to net income of $10.0 million, or $0.04 per share basic and diluted, for the same period in 2010. Higher oil revenues due to higher realized crude oil prices and a $24.3 million gain on acquisition of Petrolifera were partially offset by increased operating and G&A expenses, equity tax, and a ceiling test impairment in the Peru cost center. Net income for the first quarter of 2011 included a foreign exchange loss of $5.2 million, of which $4.5 million is an unrealized non-cash foreign exchange loss. Net income for the first quarter of 2010 included a $14.3 million foreign exchange loss, of which $12.7 million was an unrealized non-cash foreign exchange loss.

Crude oil and NGL production, net after royalties, for the three months ended March 31, 2011 decreased to 1,293,453 barrels compared to 1,341,682 barrels for the same period in 2010 due to pipeline maintenance related interruptions in Colombia which restricted sales. Average realized crude oil prices for the current quarter increased to $94.31 per barrel from $69.20 per barrel for the first three months of 2010 reflecting higher West Texas Intermediate (“WTI”) oil prices.

Revenue and interest increased 32% to $122.5 million for the three months ended March 31, 2011 compared to $93.1 million in the same period in 2010 due to an increase of 36% in crude oil prices.

Operating expenses for the first quarter of 2011 amounted to $16.4 million, a 61% increase from the same period in 2010 mainly due to higher workover, fuel and power, water injection and trucking costs. For the three months ended March 31, 2011, operating expenses on a boe basis were $12.52 per boe, an increase over the same period in 2010 also due the same reasons previously listed.

DD&A expense for the first quarter of 2011 increased to $63.4 million compared to $40.3 million for the same quarter in 2010 due to a $31.9 million ceiling test impairment in our Peru cost center. On a boe basis, DD&A for the three months ended March 31, 2011 was $48.39 compared to $29.99 for the same period in 2010. This 61% increase was primarily due to the impairment in our Peru cost center only partially offset by the impact higher proved reserves in Colombia in 2011 and the increase of proved reserves in Argentina in 2011 through the Petrolifera acquisition.

G&A expenses of $13.6 million for the three months ended March 31, 2011, were 90% higher than the same period in 2010 primarily due to increased employee related costs reflecting the expanded operations in Colombia, Peru and Brazil and $1.2 million of expenses associated with the acquisition of Petrolifera. G&A expenses per boe increased 95% to $10.42 per boe for the current quarter, compared to $5.34 per boe for the first quarter of 2010 for the same reasons previously listed.

Equity tax for the current quarter of $8.1 million represents a Colombian tax of 6.2% on the balance sheet equity recorded in our Colombia branches at January 1, 2011. The equity tax is assessed every four years. The tax for the four-year period from 2011 to 2014 is payable in eight semi-annual installments over the four-year period but is expensed in the first quarter of 2011 at the commencement of the four-year period. Accordingly, the equity tax expense for the previous four-year period was recorded prior to 2010 and no expense is recorded in the first quarter of 2010.

The foreign exchange loss of $5.2 million, of which $4.5 million is an unrealized non-cash foreign exchange loss for the first quarter of 2011 primarily represents a foreign exchange loss resulting from the translation of a deferred tax liability. In the first quarter of 2010, a $14.3 million foreign exchange loss was recorded, of which $12.7 million was an unrealized non-cash foreign exchange loss.

Income tax expense for the three months ended March 31, 2011 amounted to $26.7 million compared to $11.2 million recorded in the same period in 2010. The increase of $15.5 million in income tax expense over the same period in 2010 is primarily due to higher income before income taxes from increased oil prices received over the same period in the prior year. The effective tax rate to March 31, 2011 is 66% and has increased from the same period in 2010 primarily due to the increase in the valuation allowance on losses incurred mainly in Peru. The variance from the 35% U.S. statutory rate for the first quarter of 2011 results from non-deductible foreign currency translation losses as described above and an increase in valuation allowances taken on losses incurred in the U.S., Canada, Peru and Brazil offset partially by the inclusion of the non-taxable gain on acquistion. The variance from the 35% U.S. statutory rate for the first quarter of 2010 is primarily attributable to non-deductible foreign currency translation losses as described above and an increase in valuation allowances taken on losses incurred in the U.S., Canada, Peru and Brazil, offset by enhanced tax depreciation taken on oil and gas capital expenditures.

Segmented Results of Operations

Our operations are carried out in Colombia, Argentina, Peru, and Brazil, and we are headquartered in Calgary, Alberta, Canada. Our reportable segments include Colombia, Argentina, Peru and Corporate with the latter including the results of our initial activities in Brazil. For the three months ended March 31, 2011, Colombia generated 96% of our revenue and other income.

Segmented Results - Colombia

| Segmented Results of Operations – Colombia | Three Months Ended March 31, 2011 | 2010 | % Change |
|---|---|---|---|
| (Thousands of U.S. Dollars) | | | |
| Oil and natural gas sales | $117,304 | $89,433 | 31 |
| Interest | 87 | 77 | 13 |
| | 117,391 | 89,510 | 31 |
| | | | |
| Operating expenses | 12,785 | 8,102 | 58 |
| Depletion, depreciation and accretion | 30,036 | 35,006 | (14) |
| General and administrative expenses | 3,313 | 3,072 | 8 |
| Equity tax | 8,050 | - | - |
| Foreign exchange loss | 5,321 | 14,570 | 63 |
| | 59,505 | 60,750 | (2) |
| | | | |
| Segment income before income taxes | $57,886 | $28,760 | 101 |
| Production, Net of Royalties | | | |
| Oil and NGL's ("bbl") (1) | 1,203,615 | 1,265,569 | (5) |
| Natural gas ("mcf") (1) | 55,257 | 22,518 | 145 |
| Total production ("boe") (1) (2) | 1,212,825 | 1,269,322 | (4) |
| Average Prices | | | |
| Oil and NGL's ("per bbl") | $97.27 | $70.60 | 38 |
| Natural gas ("per mcf") | $4.04 | $4.02 | - |
| Segmented Results of Operations ("per boe") | | | |
| Oil and natural gas sales | $96.72 | $70.46 | 37 |
| Interest | 0.07 | 0.06 | 17 |
| | 96.79 | 70.52 | 37 |
| | | | |
| Operating expenses | 10.54 | 6.38 | 65 |
| Depletion, depreciation and accretion | 24.77 | 27.58 | (10) |
| General and administrative expenses | 2.73 | 2.42 | 13 |
| Equity Tax | 6.64 | - | - |
| Foreign exchange loss | 4.39 | 11.48 | 62 |
| | 47.07 | 47.86 | 3 |
| | | | |
| Segment income before income taxes | $47.72 | $22.66 | 111 |

(1) Gas volumes are converted to barrel of oil equivalent (“boe”) at the rate of six thousand cubic feet (“mcf”) of gas per barrel of oil, based upon the approximate relative energy content of gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. Natural gas liquids (“NGL”) volumes are converted to boe on a one-to-one basis with oil.

(2) Production represents production volumes adjusted for inventory changes.

Segmented Results of Operations – Colombia for the Three Months Ended March 31, 2011 compared to the Results for the Three Months Ended March 31, 2010

For the three months ended March 31, 2011, income before income taxes from Colombia amounted to $57.9 million compared to $28.8 million recorded for the same period in 2010. This is mainly the result of increased oil revenues due to higher realized crude oil prices, a $5.0 million decrease in DD&A due to higher reserve levels, and lower foreign exchange losses. These factors were partially offset by higher operating expenses due to the higher workover, fuel and power, water injection and trucking costs and the recording of an equity tax in the current quarter. On a per barrel basis, the pre-tax income for the three months ended March 31, 2011 was $47.72 versus $22.66 recorded for the same period in 2010. The difference is due to the same factors listed above.

For the three months ended March 31, 2011, production of crude oil and NGLs, net after royalties, decreased by 5% to 1,203,615 barrels compared to 1,265,569 barrels for the same period in 2010. This decrease is due to reduced sales through the Ecopetrol-operated Trans-Andean oil pipeline between December 28, 2010 and February 7, 2011 as a result of maintenance at the Tumaco Port crude offloading terminal. These production levels are after government royalties ranging from 8% to 26% and third party royalties of 2% to 10%.

As a result of achieving gross field production of five million barrels in our Costayaco field during the month of September 2009, Gran Tierra is now subject to an additional government royalty payable. This royalty is calculated on 30% of the field production revenue over an inflation adjusted trigger point. That trigger point for Costayaco crude oil is $31.29 for 2011. Production revenue for this calculation is based on production volumes net of other government royalty volumes. Average government royalties at Costayaco with gross production of 19,000 BOPD and $80 WTI per barrel are approximately 25.7%, including the additional government royalty of approximately 18.0%. The National Hydrocarbons Agency sliding scale royalty at 19,000 BOPD is approximately 9.4% and this royalty is deductible prior to calculating the additional government royalty.

Gran Tierra’s Colombian operating results for the three months ended March 31, 2011 included production from two new development wells (Costayaco – 11, and –12) in the Costayaco field of the Chaza Block. In the first quarter of 2010, Colombia production included production from Costayaco – 1, – 2, – 3, – 4, – 5, – 8, – 9, – 10, Juanambu – 1 and – 2 in the Guayuyaco Block, along with production from the Santana Block.

Revenue and interest increased 31% in 2011 compared to 2010 due to an increase in net realized crude oil prices. The average net realized price for crude oil, which is based on WTI prices, increased by 38% to $97.27 per barrel for the three months ended March 31, 2011 compared to the same period last year. We received a premium to WTI during the first quarter of 2011.

Operating expenses for the three months ended March 31, 2011 increased to $12.8 million from $8.1 million in the same period last year. The increased operating expenses resulted from higher workover, fuel and power, water injection and trucking costs. On a per barrel basis, operating expenses for the first quarter of 2011 increased to $10.54 compared to $6.38 incurred for the same period last year, for the same reason mentioned above.

For the three months ended March 31, 2011, DD&A expense decreased to $30.0 million from $35.0 million recorded in the same period in 2010. Decreased production levels coupled with higher crude oil proved reserves, accounted for the decrease in DD&A expense. On a per boe basis, the DD&A expense in Colombia decreased by 10% to $24.77 for the first three months of 2011 compared to the same period last year for the same reasons mentioned above.

An increased level of development and operating activities and higher stock-based compensation expense resulted in G&A expense increasing to $3.3 million for the three months ended March 31, 2011 from $3.1 million incurred for the same period in 2010. On a per barrel basis, G&A expense increased by 13% to $2.73 from $2.42 for the first quarter of 2011 compared to the same period in 2010.

Equity tax for the current quarter of $8.1 million represents a Colombian tax of 6.2% on the balance sheet equity recorded in our Colombia branches at January 1, 2011. The equity tax is assessed every four years. The tax for the four-year period from 2011 to 2014 is payable in eight semi-annual installments over the four-year period but is expensed in the first quarter of 2011 at the commencement of the four-year period. Accordingly, the equity tax expense for the previous four-year period was recorded prior to 2010 and no expense is recorded in the first quarter of 2010.

The results for the three months ended March 31, 2011 included a foreign exchange loss of $5.3 million, of which $4.4 million is an unrealized non-cash foreign exchange loss (first quarter of 2010 - $14.6 million loss, of which $12.6

million was an unrealized loss). This deferred tax liability, a monetary liability, is denominated in the local currency of the Colombian foreign operations and as a result, foreign exchange gains and losses have been calculated on conversion to the U.S. dollar functional currency. A strengthening in the Colombian peso against the U.S. dollar results in foreign exchange losses, estimated at $110,000 for each one peso decrease in the exchange rate of the Colombian peso to one U.S. dollar.

Capital Program - Colombia

Gran Tierra's focus in Colombia for the first quarter of 2011 was the execution of the 2011 drilling program, including drilling the Moqueta -4 development well and Costayaco-12 and Costayaco-13 development wells in the Chaza block, commencing drilling of the Juanambu-3 development well, drilling the Pacayaco, Canangucho, and Taruka prospects, the continued development of the Costayaco field, and construction of facilities on the Brillante field and drilling the San Angel -1 well acquired through Petrolifera.  In support of this strategy, our capital expenditures in Colombia amounted to $42.3 million for the three months ended March 31, 2011.

| Segmented Capital Expenditures – Colombia<br>Block and Activity<br>(Millions of U.S. Dollars) | | Three Months Ended, March 31, 2011 |
|---|---|---|
| Chaza | Costayaco facilities, Moqueta pipeline, Pacayco-1, Canangucho-1, Costayaco-12, Costayaco-13, and Moqueta-4 drilling | $ 25.4 |
| Guayayaco | Juanambu-3 drilling, and facilities | 1.9 |
| Rumiyaco | Acquisition of seismic | 0.1 |
| Garibay | Jilguero-1 drilling | 0.4 |
| Piedemonte Sur | Taruka -1 drilling | 5.7 |
| Sierra Nevada | Brillante facilities | 5.4 |
| Magdalena | San Angel-1 drilling | 2.0 |
| Santana | Facilities | 0.1 |
| Capitalized G&A and other | | 1.3 |
| | | |
| Segmented Capital Expenditures – Colombia | | $ 42.3 |

For comparison, during the three months ended March 31, 2010, we spent $17.6 million on capital projects.

| Segmented Capital Expenditures - Colombia<br>Block and Activity<br>(Millions of U.S. Dollars) | | Three Months Ended, March 31, 2010 |
|---|---|---|
| Chaza | Costayaco facilities and site preparation for Costayaco -11 and Moqueta -1 drilling | $ 7.2 |
| Guayayaco | Juanambu -2 drilling and facilities | 4.8 |
| Rumiyaco | Commencement of 3D seismic | 2.3 |
| Garibay | Completion of 3D seismic program | 0.6 |
| Piedemonte Sur | Rig mobilization for Taruka -1 well | 0.6 |
| Capitalized G&A and other | | 2.1 |
| | | |
| Segmented Capital Expenditures – Colombia | | $ 17.6 |

Segmented Results – Argentina

| | Three Months Ended March 31, | | |
|---|---|---|---|
| Segmented Results of Operations - Argentina | 2011 | 2010 | % Change |
| (Thousands of U.S. Dollars) | | | |
| Oil and natural gas sales | $4,992 | $3,499 | 43 |
| Interest | - | 16 | - |
| | 4,992 | 3,515 | 42 |
| | | | |
| Operating expenses | 3,547 | 2,029 | 75 |
| Depletion, depreciation, accretion, and impairment | 1,147 | 5,267 | (78) |
| General and administrative expenses | 918 | 720 | 28 |
| Foreign exchange (gain) loss | (190) | 143 | (233) |
| | 5,422 | 8,159 | (34) |
| | | | |
| Segment loss before income taxes | $(430) | $(4,644) | (91) |
| | | | |
| Production, Net of Royalties | | | |
| | | | |
| Oil and NGL's ("bbl") (1) (2) | 89,838 | 76,113 | 18 |
| Natural gas ("mcf") (2) | 39,060 | - | - |
| Total production ("boe") (2) (3) | 96,348 | 76,113 | 27 |
| | | | |
| Average Prices | | | |
| | | | |
| Oil and NGL's ("per bbl") | $54.54 | $45.97 | 19 |
| Natural gas ("mcf") (1) | $2.37 | $- | - |
| | | | |
| Segmented Results of Operations ("per boe") | | | |
| | | | |
| Oil and natural gas sales | $51.81 | $45.97 | 13 |
| Interest | - | 0.21 | - |
| | 51.81 | 46.18 | 12 |
| | | | |
| Operating expenses | 36.81 | 26.66 | 38 |
| Depletion, depreciation, accretion, and impairment | 11.90 | 69.20 | (83) |
| General and administrative expenses | 9.53 | 9.46 | 1 |
| Foreign exchange (gain) loss | (1.97) | 1.88 | 205 |
| | 56.27 | 107.20 | (48) |
| | | | |
| Segment loss before income taxes | $(4.46) | $(61.02) | (93) |

(1) NGL volumes are converted to boe on a one-to-one basis with oil.

(2) Production represents production volumes adjusted for inventory changes.

Segmented Results of Operations – Argentina for the Three Months Ended March 31, 2011 compared to the Results for the Three Months Ended March 31, 2010

For the three months ended March 31, 2011 the pre-tax loss from Argentina was $0.4 million compared to a pre-tax loss of $4.6 million recorded in the same period in 2010. The decreased loss was due to higher production and realized crude oil prices, lower DD&A expense as there was no impairment of oil and gas properties in the current quarter as compared to a $3.7 million impairment in the comparative quarter and lower depletion in the current quarter due to the addition of the Petrolifera proved reserves to the reserve base.

Crude oil and NGL production, net after 12% royalties, increased to 89,838 barrels for the three months ended March 31, 2011 compared to 76,113 barrels for the same period in 2010. The increase resulted from the inclusion of Petrolifera production beginning March 19, 2011.

Due to the local regulatory regimes, the price we currently receive for production from our blocks is approximately $55 per barrel. Furthermore, currently most oil and gas producers in Argentina are operating without sales contracts for periods longer than several months. A new withholding tax regime was introduced in Argentina without specific guidance as to its application. Producers and refiners of oil in Argentina have been unable to determine an agreed sales price for oil deliveries to refineries. Along with most other oil producers in Argentina we are continuing deliveries to the refineries and are negotiating a price for those deliveries on a regular and short term basis.

With an 18% improvement in regulated crude oil prices, and increased production levels due to the inclusion of Petrolifera production, our revenues have increased by 43% to $5.0 million in the three months ended March 31, 2011 compared to $3.5 million for the same period in 2010.

Operating expenses for the three months ended March 31, 2011, increased to $3.5 million, or $36.81 per boe, compared to $2.0 million, or $26.66 per boe, incurred in the same quarter last year due to increased workovers in the current period. Operating costs on a per boe basis increased also as a result of increased workover expenses.

DD&A expense for the three months ended March 31, 2011 was $1.1 million, a decrease from the $5.3 million recorded in the same period of 2010. On a per boe basis, DD&A for the three months ended March 31, 2011 decreased to $11.90 from $69.20 recorded in the same period last year. The DD&A rate changed as a result of the addition of the Petrolifera proved reserves and cost base in March 2011 and because there was no impairment loss in the current period compared to a $3.7 impairment loss recorded in the comparative period.

Capital Program - Argentina

Capital expenditures for the three months ended March 31, 2011, amounted to $11.6 million mainly relating to Valle Morado drilling for $13.5 million, El Chivil facilities for $0.7 million and Santa Victoria expenditures of $0.2 million offset by farmout proceeds of $3.3 million.  Capital expenditures in Argentina for the three months ended March 31, 2010, were $0.7 million. These costs included facility construction and the acquisition of seismic data.

Segmented Results – Peru

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2011 | 2010 | % Change |
| Segmented Results of Operations - Peru<br>(Thousands of U.S. Dollars) | | | |
| Operating expenses | $64 | $36 | 78 |
| Depletion, depreciation, accretion and impairment | 31,933 | 8 | - |
| General and administrative expenses | 565 | 204 | 177 |
| Foreign exchange loss | 63 | - | - |
| | 32,625 | 248 | 13,055 |
| | | | |
| Segment loss before income taxes | $(32,625) | $(248) | 13,055 |

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In the three months ended March 31, 2011, Peru became a reportable geographic segment due to the significance of its loss before income taxes as compared to the consolidated loss before income taxes. Prior year comparative geographic segment presentation has been conformed to this presentation with the Peru related results and asset information disaggregated from the Corporate segment.

For the three months ended March 31, 2011, the pre-tax loss from Peru was $32.6 million compared to a pre-tax loss of $0.3 million recorded in the same period in 2010.

DD&A expense for the three months ended March 31, 2011 was $31.9 million as compared to nil in 2010 as a result of a $31.9 million ceiling test impairment related to seismic and dry hole drilling costs combined with depreciation of other assets.

G&A expense was $0.6 million for the three months ended March 31, 2011 compared with G&A expenses of $0.2 million recorded in the same period in 2010 as a result of increased operations.

Capital Program – Peru

Capital expenditures were $14.3 million mainly related to the drilling of Kanatari -1 on Block 128 as compared to $0.5 million for the same period in 2010.

Segmented Results – Corporate

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2011 | 2010 | % Change |
| Segmented Results of Operations - Corporate<br>(Thousands of U.S. Dollars) | | | |
| Interest | $136 | $85 | 60 |
| | | | |
| Operating expenses | - | 18 | - |
| Depletion, depreciation and accretion | 241 | 62 | 289 |
| General and administrative expenses | 8,842 | 3,194 | 177 |
| Financial instruments gain | (230) | (44) | 423 |
| Gain on acquisition | (24,300) | - | - |
| Foreign exchange loss (gain) | 5 | (419) | 101 |
| | (15,442) | 2,811 | (649) |
| | | | |
| Segment loss before income taxes | $15,578 | $(2,726) | (671) |

Segmented Results of Operations - Corporate

In addition to the expenditures associated with the maintenance of Gran Tierra's headquarters in Calgary, Alberta, Canada, and cost of compliance and reporting under securities regulations, the results of the Corporate Segment include the results of our initial operations in Brazil.

The increase in G&A expenses over the same period in the prior year was attributable to increased staff to manage expanded operations in all countries as well as the related higher stock-based compensation and $1.2 million incurred related to the acquisition of Petrolifera.

The gain on acquistion relates to the gain recorded on the acquisition of Petrolifera as previously discussed.

The foreign exchange loss results from the translation of foreign currency denominated transactions to U.S. Dollars.

Capital Program – Corporate

The capital expenditures for the Corporate Segment of $0.9 million during the three months ended March 31, 2011 were related to other assets in both headquarters in Calgary and in Brazil. Expenditures in the comparative period were $0.8 million, also related to the same expenditures.

Liquidity and Capital Resources

At March 31, 2011, we had cash and cash equivalents of $253.9 million compared to $355.4 million at December 31, 2010. At March 31, 2011, bank debt of $31.3 million was reflected in the condensed consolidated balance sheet related to the reserve-backed credit facility acquired as part of the Petrolifera acquisition. The outstanding balance will be repaid when the Argentine restriction preventing its repayment expires in August 2011. At this later date, we expect to be debt free as we were prior to the acquisition. We believe that our cash position and cash generated from operations will provide us with sufficient liquidity to meet our strategic objectives and fund the debt repayment and our planned capital program for at least the next 12 months. In accordance with our investment policy, cash balances are invested only in United States or Canadian government backed federal, provincial or state securities with the highest credit ratings and short term liquidity.

Effective July 30, 2010, a subsidiary of Gran Tierra, Solana, established a credit facility with BNP Paribas for a three-year term which may be extended or amended by agreement between the parties. This reserve based facility has a maximum borrowing base up to $100 million and is supported by the present value of the petroleum reserves of our two subsidiaries with operating branches in Colombia – Gran Tierra Energy Colombia Ltd. and Solana Petroleum Exploration (Colombia) Ltd. The initial committed borrowing base is $20 million. Amounts drawn down under the facility bear interest at the U.S. dollar LIBOR rate plus 3.5%. In addition, a stand-by fee of 1.50% per annum is charged on the unutilized balance of the committed borrowing base and is included in general and administrative expense. Under the terms of the facility, we are required to maintain and were in compliance with certain financial and operating covenants. As at March 31, 2011, we had not drawn down any amounts under this facility.

As part of the acquisition of Petrolifera on March 18, 2011, we assumed a $100.0 million reserve-backed credit facility with available and outstanding balance as at the Acquisition Date and March 31, 2011 of $31.1 million. This credit facility agreement with a syndicate of banks expires on June 30, 2012. The credit facility bears interest at LIBOR plus 8.25%, is partially secured by the pledge of the shares of Petrolifera's subsidiaries and has a provision for a borrowing base adjustment every six months. This facility is currently under review, with any adjustment to the borrowing bas calculated based on information as at December 31, 2010. Under the terms of the facility, we are required to maintain and were in compliance with certain financial and operating covenants. We have classified this credit facility as current as we intend to repay the credit facility at the first opportunity in August of 2011. A regulation of the Argentine Central Bank established that "new indebtedness and renewals of debts with foreign creditors engaged by local residents shall be kept for a minimum of 365 days". Petrolifera entered into an amendment of this credit facility on August 4, 2010, which then renewed and restructured the existing debt. As a result, the principal debt that was loaned into Argentina cannot be repaid and retired until August 2011.

Cash Flows

During the three months ended March 31, 2011, our cash and cash equivalents decreased by $101.5 million as a result of cash outflows from operations of $31.2 million, from investing activities of $49.4 million and from financing activities of $20.9 million.

Net cash provided by operating activities was positively affected by the significant increase in crude oil prices, which was more than offset by the increase in receivables related to oil sales and a reduction in accounts payable.

Outflows from investing activities included additions to property, plant and equipment of $74.3 million and an increase in restricted cash of $5.6 million offset by proceeds on sale of ABCP of $22.7 million and $7.7 million cash acquired through the Petrolifera acquisition.

Financing activities included the repayment of $22.9 million of debt acquired through the Petrolifera acquisition, offset by $2.0 million related to proceeds from issuance of common shares.

During the three months ended March 31, 2010, our cash and cash equivalents decreased by $5.1 million as cash inflows from operations of $2.4 million and from financing activities of $18.2 million were more than offset by cash outflows for investing activities of $25.7 million. Net cash provided by operating activities was positively affected by the significant increase in crude oil production and increase in prices, offset by the increases in receivables related to oil sales and a reduction in accounts payable. Investing activities represented our capital expenditure program and financing activities represented proceeds from the issuance of common shares.

Off-Balance Sheet Arrangements

As at March 31, 2011, we had no off-balance sheet arrangements.

Contractual Obligations

Gran Tierra holds three categories of operating leases, namely office, vehicle and housing. Future lease payments and other contractual obligations at March 31, 2011 are as follows:

| | | As at March 31, 2011 Payments Due in Period | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | Less than 1 Year | 1 to 3 years | 3 to 5 years | More than 5 years |
| (Thousands of U.S. Dollars) | | | | | |
| Operating leases | $7,835 | $3,151 | $3,044 | $1,640 | $- |
| Bank debt | 31,250 | 31,250 | - | - | - |
| Software and Telecommunication | 1,228 | 1,033 | 195 | - | - |
| Drilling, Completion, Facility Construction and Oil Transportation Services | 64,571 | 48,301 | 16,270 | - | - |
| Consulting | 317 | 317 | - | - | - |
| Total | $105,201 | $84,052 | $19,509 | $1,640 | $- |

Contractual commitments have increased $26.5 million from December 31, 2010 mainly as a result of bank debt assumed upon the acquisition of Petrolifera as previously discussed.

Related Party Transactions

On February 1, 2009, we entered into a sublease for office space with a company, of which one of Gran Tierra's directors is a shareholder and director. The term of the sublease runs from February 1, 2009 to August 31, 2011 and the sublease payment is $9,000 per month plus approximately $5,000 for operating and other expenses. The terms of the sublease were consistent with market conditions in the Calgary, Alberta, Canada real estate market.

On August 3, 2010, we entered into a contract related to the Peru drilling program with a company of which one of our directors is a shareholder and director. For the three months ended March 31, 2011, $2.0 million was capitalized and at March 31, 2011, $1.4 million was included in accounts payable related to this contract, the terms of which are consistent with market conditions.

On January 12, 2011, we entered into an agreement to sublease office space to a company of which our President and Chief Executive Officer serves as an independent Director. The term of the sublease runs from February 1, 2011 to January 30, 2013 and, at $5,000 per month plus approximately $6,000 for operating and other expenses, the terms are consistent with market conditions in the Calgary, Alberta, Canada real estate market.

Outlook

Business Environment

Our revenues have been significantly impacted by the continuing fluctuations in crude oil prices. Crude oil prices are volatile and unpredictable and are influenced by concerns about financial markets and the impact of the downturn in the worldwide economy on oil demand growth. However, based on projected production, prices, costs and our current liquidity position, we believe that our current operations and capital expenditure program can be maintained from cash flow from existing operations and cash on hand, barring unforeseen events or a severe downturn in oil and gas prices. Should our operating cash flow decline, we would examine measures such as reducing our capital expenditure program, issuance of debt, disposition of assets, or issuance of equity. The current political uncertainty regarding the Middle East, the tsunami in Japan, and continued economic instability in the United States and Europe is having an impact on world markets, and the Company is unable to determine the impact, if any, these events may have on oil prices and demand.

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Our future growth and acquisitions may depend on our ability to raise additional funds through equity and debt markets. Should we be required to raise debt or equity financing to fund capital expenditures or other acquisition and development opportunities, such funding may be affected by the market value of our common stock. If the price of our common stock declines, our ability to utilize our stock to raise capital may be negatively affected. Also, raising funds by issuing stock or other equity securities would further dilute our existing stockholders, and this dilution would be exacerbated by a decline in our stock price. Any securities we issue may have rights, preferences and privileges that are senior to our existing equity securities. Borrowing money may also involve further pledging of some or all of our assets.

2011 Work Program and Capital Expenditure Program

Gran Tierra's 2011 work program is intended to create both growth and value in our existing assets through increasing our reserves and production from exploration financed by cash flow, while retaining financial flexibility with a strong cash position and no debt, so that we can be positioned to undertake further development opportunities and to pursue acquisition opportunities. However, actual capital expenditures may vary significantly from our 2011 work program if unexpected events or circumstances occur, such as new opportunities present themselves, or anticipated opportunities do not come to fruition, which may therefore either increase or decrease the amount of capital expenditures we incur in 2011.

As a result of the Petrolifera acquisition and the revised work programs, Gran Tierra has increased production guidance to between 17,500 and 19,000 barrels of oil equivalent per day net after royalty.

Gran Tierra has planned a revised 2011 capital spending program of $357 million for exploration and development activities in Colombia, Peru, Argentina and Brazil, including expenditures related to the newly acquired Petrolifera assets. Of this, $190 million is for drilling, $79 million for infrastructure, $87 million for seismic acquisition and $1 million for other activities. Of the $190 million related to drilling, approximately, $87 million is for exploration and the balance is for delineation and development drilling.

We expect that our committed and discretionary 2011 capital program can be funded from cash flow from operations and cash on hand. The following outlook represents the capital program based upon the current portfolio of Gran Tierra properties.

Outlook – Colombia

The 2011 capital program in Colombia has been revised to $196 million. $106 million is allocated to drilling, $33 million to facilities, $5 million to pipelines, and $52 million for geological and geophysical expenditures.

Three additional blocks were added to Gran Tierra's portfolio from Petrolifera, Sierra Nevada, Magdalena, and Turpial.

The drilling program includes nine gross exploration wells. In the first quarter, the Canagucho-1 and Taruka-1 exploration wells were drilled and abandoned. The San Angel-1 well was drilling at March 31, 2011 and was plugged and abandoned in April 2011. Pacayaco-2, Rumiyaco-1, Melora-1, La Vega Este-1, Turpial-1, and Brillante-2 are planned to drill in the remaining nine months.

The drilling program includes seven gross development wells. Four of these wells, Costayaco -12, Costayaco-13, Moqueta-4 and Moqueta-5 wells were successful with drilling completion dates throughout the first quarter and through the end of April 2011. Juanambu-3 was rig released in April 2011 and is awaiting testing. The remaining wells, Moqueta-6 and Costayaco-14 injector, will be drilled during the remainder of 2011.

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Facility construction includes ongoing development of the Moqueta field and further facility work at Costayaco and Brillante.

Two stratigraphic test wells, one in Putumayo 10 Block and on in Piedemonte Norte Block, will not be drilled due to lack of appropriate slimhole drilling rigs.  These targets will be considered for drilling in 2012 with conventional drilling rigs.

Outlook – Argentina

The 2011 capital program in Argentina has been revised to $50 million.  $41 million is allocated to drilling, $5 million to facilities and pipelines, and $4 million to geological and geophysical expenditures.

Gran Tierra acquired five blocks in the Nuequen Basin from Petrolifera; Puesto Morales, Puesto Morales Este, Rinconada, Vaca Mahudia, Puesto Guevara and Gobernader.

Gran Tierra’s planned work program for 2011 includes costs related to the re-entry and sidetrack of the GTE. St.VMor-2001 well, one development well in Palmar largo and development and water injector wells in Puesto Morales /Puesto Morales Este, workovers in El Vinalar and Puesto Morales/Puesto Morales Este, facility construction, and geophysical work.

In February 2011, the sidetrack and re-entry operations at the GTE.St.VMor-2001 well were suspended and the well bore is being abandoned. Gran Tierra is planning to drill a new vertical well in the gas field in 2012.

Gran Tierra has initiated its workover program on 16 wells in the Puesto Morales/Puesto Morales Este blocks and is planning to drill six development wells and three water injector wells in the area.  The intention of the program is to improve recovery of the remaining reserves, minimize water channeling through the use of polymer, and subsequently to grow production.

In April 2011, Gran Tierra announced the successful farm out of 50% of the Santa Victoria block to Apache Corporation (“Apache”).

Outlook - Peru

The 2011 capital program in Peru has been revised to $49 million.  $22 million is allocated to drilling and $17 million allocated to geological and geophysical.

Gran Tierra acquired three blocks in relation to the Petrolifera acquisition: Block 107, Block 133 and Block 106. Prior to close of the acquisition, Petrolifera, in consultation with Gran Tierra, notified PeruPetro of the intention not to proceed to the next exploration phase in Block 106. Accordingly, the license agreement was terminated in April 2011.

Permitting relating to drilling on Block 107 continues to advance and one exploration well is planned for 2012.

In February 2011, in accordance with contractual obligations, Gran Tierra relinquished 20% of Block 128.  In March 2011, the Kanatari-1 exploration well on Block 128 was plugged and abandoned.   Gran Tierra continues to assess options related to Block 128 and the adjacent Block 122.  No well is planned in 2011 on Block 122 as the currently permitted drilling locations are not prospective.

On April 26, 2011, final assignment of interest was received for Gran Tierra's 20% non-operated interest in ConocoPhilips Block 123, Block 124 and Block 129. Gran Tierra plans to assess the prospectivity of these blocks based on recently acquired 2-D seismic data.

Upon approval of assignment of interests to Gran Tierra by Perupetro S.A., Gran Tierra plans to begin civil construction for one exploration well on Block 95 in the third quarter of 2011 and to begin drilling in the second quarter of 2012.

Outlook - Brazil

The 2011 capital program in Brazil is $62 million and includes $22 million budgeted for drilling and completions and the remainder for facilities and acquisition costs of the working interest ownership as described below.

In August 2010, Gran Tierra Energy established an initial exploration and production position in Brazil, subject to approval by Agência Nacional de Petróleo Gás Natural e Biocombustíveis (“ANP”), whereby Gran Tierra Energy will receive a 70% working interest in four Blocks in the onshore Recôncavo Basin.  In April 2011, Gran Tierra Energy received final approvals for Blocks -129, -142 and -224 and expects regulatory approval for Block 155 shortly. Gran Tierra Energy will then assume its working interest share of a light oil discovery which has an unaudited estimated gross recoverable resource of 6 million barrels of oil.  Gran Tierra Energy expects to drill two gross development wells in 2011 to grow production from this discovery, which is currently producing 500 barrels of oil per day gross from one zone without the assistance of pumps.

In addition, two exploration wells are planned for 2011, one well on Block 129 and one well on Block 142.  Drilling rigs are currently being tendered and locations are being permitted. The first exploration well is expected to spud on Block 142 in the end of third quarter of 2011.

Critical Accounting Policies and Estimates

The preparation of financial statements under generally accepted accounting principles (“GAAP”) in the United States requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The critical accounting policies used by management in the preparation of our consolidated financial statements are those that are important both to the presentation of our financial condition and results of operations and require significant judgments by management with regards to estimates used. We believe that the assumptions, judgments and estimates involved in the accounting for oil and gas accounting and reserves determination, establishment of fair values of assets and liabilities acquired as part of acquisitions, impairment, asset retirement obligations, goodwill impairment, deferred income taxes, share-based payment arrangements, and warrants have the greatest potential impact on our consolidated financial statements. These areas are key components of our results of operations and are based on complex rules which require us to make judgments and estimates, so we consider these to be our critical accounting estimates. Our critical accounting policies and significant judgments and estimates related to those policies are discussed below.

Actual results could differ from these estimates, however, historically, our assumptions, judgments and estimates relative to our critical accounting estimates have not differed materially from actual results.

On a regular basis we evaluate our assumptions, judgments and estimates. We also discuss our critical accounting policies and estimates with the Audit Committee of the Board of Directors. Our critical accounting policies and estimates are disclosed in Item 7 of our 2010 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 25, 2011, and have not changed materially since the filing of that document.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal market risk relates to oil prices. Essentially 100% of our revenues are from oil sales at prices which are defined by contract relative to WTI and adjusted for transportation and quality for each month. In Argentina, a further discount factor which is related to a tax on oil exports establishes a common pricing mechanism for all oil produced in

the country, regardless of its destination.

We consider our exposure to interest rate risk to be immaterial and will repay the reserve backed credit facility acquired on the acquisition of Petrolifera in August 2011, when the Argentine restrictions preventing us from doing so lapse. Interest rate exposures relate primarily to our investment portfolio as the $31.3 million debt under our reserve backed credit facility, which is based on LIBOR plus 8.25 %, will be repaid in August 2011. Our investment objectives are focused on preservation of principal and liquidity. By policy, we manage our exposure to market risks by limiting investments to high quality bank issuers at overnight rates, or government securities of the United States or Canadian federal governments such as Guaranteed Investment Certificates or Treasury Bills. We do not hold any of these investments for trading purposes. We do not hold equity investments.

Foreign currency risk is a factor for our company but is ameliorated to a large degree by the nature of expenditures and revenues in the countries where we operate. We have not engaged in any formal hedging activity with regard to foreign currency risk. Our reporting currency is U.S. dollars and essentially 100% of our revenues are related to the U.S. price of West Texas Intermediate oil. In Colombia, we receive 100% of our revenues in U.S. dollars. The majority of our capital expenditures in Colombia are in U.S. dollars and the majority of local office costs are in local currency. In Argentina, reference prices for oil are in U.S. dollars and revenues are received in Argentine pesos according to current exchange rates. The majority of capital expenditures within Argentina have been in U.S. dollars with local office costs generally in pesos. The majority of our capital expenditures in Brazil and Peru are in U.S. dollars and the majority of local office costs are in the local currencies. While we operate in South America exclusively, the majority of our acquisition expenditures have been valued and paid in U.S. dollars.

Additionally, foreign exchange gains/losses result from the fluctuation of the U.S. dollar to the Colombian peso due to our deferred tax liability, a monetary liability, which is mainly denominated in the local currency of the Colombian foreign operations. As a result, a foreign exchange gain/loss must be calculated on conversion to the U.S. dollar functional currency. A strengthening in the Colombian peso against the U.S. dollar results in foreign exchange losses, estimated at $110,000 for each one peso decrease in the exchange rate of the Colombian peso to one U.S. dollar.

## ITEM 4. - CONTROLS AND PROCEDURES

### (a) Evaluation of Disclosure 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 management, including 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 l3a-15(e) of the Exchange Act. Based on their evaluation, our principal executive and principal financial officers have concluded that Gran Tierra's disclosure controls and procedures were effective as of March 31, 2011 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.

### Changes in Internal Control over Financial Reporting

We acquired Petrolifera Petroleum Limited on March 18, 2011 and are currently in the process of integrating it into our existing internal controls and procedures. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 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

Ecopetrol and Gran Tierra Colombia, the contracting parties of the Guayuyaco Association Contract, are engaged in a dispute regarding the interpretation of the procedure for allocation of oil produced and sold during the long term test of the Guayuyaco-1 and Guayuyaco-2 wells. This matter was reported in our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission on February 25, 2011.

Gran Tierra is subject to a third party 10% net profits interest on 50% of the Company's production from the Costayaco field that arises from the original acquisition in 2006 of 50% of Gran Tierra's interest in the Chaza Block Contract. There is currently a disagreement between Gran Tierra and the third party as to the calculation of the net profits interest. Gran Tierra and the third party have agreed to resolve this issue through an arbitration which is anticipated to be heard in Texas, in accordance with the rules of the American Arbitration Association, in the fourth quarter of 2011. At this time no amount has been accrued in the financial statements as the Company does not consider it probable that a loss will be incurred. The disputed amount at March 31, 2011 is $5.4 million.

### ITEM 1A. RISK FACTORS

The risks relating to our business and industry, as set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission on February 25, 2011, are set forth below and are unchanged substantively at March 31, 2011, other than those designated by an asterisk "*".

#### Risks Related to Our Business

Our Lack of Diversification Will Increase the Risk of an Investment in Our Common Stock.

Our business focuses on the oil and gas industry in a limited number of properties in Colombia, Argentina, Peru, and Brazil. Most of our production in Colombia and Argentina is limited to one basin per country. As a result, we lack diversification, in terms of both the nature and geographic scope of our business. Accordingly, factors affecting our industry or the regions in which we operate, including the geographic remoteness of our operations and weather conditions, will likely impact us more acutely than if our business was more diversified.

We May Encounter Difficulties Storing and Transporting Our Production, Which Could Cause a Decrease in Our Production or an Increase in Our Expenses.

To sell the oil and natural gas that we are able to produce, we have to make arrangements for storage and distribution to the market. We rely on local infrastructure and the availability of transportation for storage and shipment of our products, but infrastructure development and storage and transportation facilities may be insufficient for our needs at commercially acceptable terms in the localities in which we operate. This could be particularly problematic to the extent that our operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping and/or pipeline facilities. In certain areas, we may be required to rely on only one gathering system, trucking company or pipeline, and, if so, our ability to market our production would be subject to their reliability and operations. These factors may affect our ability to explore and develop properties and to store and transport our oil and gas production, and may increase our expenses.

Furthermore, future instability in one or more of the countries in which we operate, weather conditions or natural disasters, actions by companies doing business in those countries, labor disputes or actions taken by the international community may impair the distribution of oil and/or natural gas and in turn diminish our financial condition or ability

to maintain our operations.

The majority of our oil in Colombia is delivered by a single pipeline to Ecopetrol and sales of oil could be disrupted by damage to this pipeline. Once delivered to Ecopetrol, all of our current oil production in Colombia is transported by an export pipeline which provides the only access to markets for our oil. Problems with these pipelines can cause interruptions to our producing activities if they are for a long enough duration that our storage facilities become full. For example, we experienced disruptions in transportation on this pipeline in March and April of 2008, again in each of June, July and August of 2009, again in June, August, and September 2010, and again in February 2011 as a result of sabotage by guerrillas. In addition, there is competition for space in these pipelines, and additional discoveries in our area of operations by other companies could decrease the pipeline capacity available to us. Trucking is an alternative to transportation by pipeline; however it is generally more expensive and carries higher safety risks for the company and the public.

As some of our current oil production in Argentina is trucked to a local refinery, sales of oil can be delayed by adverse weather and road conditions, particularly during the months November through February when the area is subject to periods of heavy rain and flooding. While storage facilities are designed to accommodate ordinary disruptions without curtailing production, delayed sales will delay revenues and may adversely impact our working capital position in Argentina. Furthermore, a prolonged disruption in oil deliveries could exceed storage capacities and shut-in production, which could have a negative impact on future production capability.

Guerrilla Activity in Colombia Could Disrupt or Delay Our Operations, and We Are Concerned About Safeguarding Our Operations and Personnel in Colombia.

Despite significant recent security gains, Colombia remains a country where safety is a significant concern. For over 40 years, the government has been engaged in a civil war with two main Marxist guerrilla groups: the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN). Both of these groups have been designated as terrorist organizations by the United States and the European Union. In recent years, however, the government has successfully dissolved the AUC militia, a paramilitary group that originally sprouted up to combat the FARC and ELN. The dissolved AUC militia members have reorganized in the form of criminal gangs.

We operate principally in the Putumayo basin in Colombia, and have properties in other basins, including the Catatumbo, Llanos, Middle Magdalena and Lower Magdalena basins. The Putumayo and Catatumbo regions have been prone to guerilla activity. In 1989, our predecessor company’s facilities in one field were attacked by guerillas and operations were briefly disrupted. Again on 16 October 2010, two of our sites in the Putumayo/Cauca were attacked by FARC guerillas causing some disruption to operations. Pipelines have also been targets, including the Ecopetrol - operated Trans Andean (OTA) export pipeline which transports oil from the Putumayo region. In March and April of 2008, again in each of June, July, August and October of 2009, again in June, August, and September 2010, and again in February 2011, sections of the Trans Andean pipeline were sabotaged by guerillas, which temporarily reduced our deliveries to Ecopetrol during the affected periods.

Continuing attempts by the Colombian Government to reduce or prevent guerilla activity may not be successful and guerilla activity may disrupt our operations in the future. There can also be no assurance that we can maintain the safety of our operations and personnel in Colombia or that this violence will not affect our operations in the future and cause significant loss.

Our Business May Suffer If We Do Not Attract and Retain Talented Personnel.

*Our success will depend in large measure on the abilities, expertise, judgment, discretion, integrity and good faith of our executive team and other personnel in conducting the business of Gran Tierra. The loss of any of these individuals or our inability to attract suitably qualified individuals to replace any of them could materially adversely impact our business. We are experiencing difficulties in certain jurisdictions, particularly in Brazil and Argentina, where experienced personnel in our industry are in high demand and competition for their talents is intense, in our efforts to obtain suitably qualified staff and retain staff that are willing to work in that jurisdiction.

Our success depends on the ability of our management and employees to interpret market and geological data successfully and to interpret and respond to economic, market and other business conditions in order to locate and adopt appropriate investment opportunities, monitor such investments and ultimately, if required, successfully divest such investments. Further, our key personnel may not continue their association or employment with Gran Tierra and we may not be able to find replacement personnel with comparable skills. If we are unable to attract and retain key personnel, our business may be adversely affected.

Our Oil Sales Will Depend on a Relatively Small Group of Customers, Which Could Adversely Affect Our Financial Results.

Oil sales in Colombia are mainly to Ecopetrol. While oil prices in Colombia are related to international market prices, lack of competition and reliance on a limited number of customers for sales of oil may diminish prices and depress our financial results.

The entire Argentine domestic refining market is small and export opportunities are limited by available infrastructure. As a result, our oil sales in Argentina will depend on a relatively small group of customers, and currently, on three customers. The lack of competition in this market could result in unfavorable sales terms which, in turn, could adversely affect our financial results. Currently all operators in Argentina are operating without long term sales contracts. We cannot provide any certainty as to when the situation will be resolved or what the final outcome will be.

Strategic Relationships Upon Which We May Rely are Subject to Change, Which May Diminish Our Ability to Conduct Our Operations.

Our ability to successfully bid on and acquire additional properties, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements will depend on developing and maintaining effective working relationships with industry participants and on our ability to select and evaluate suitable partners and to consummate transactions in a highly competitive environment. These relationships are subject to change and may impair Gran Tierra’s ability to grow.

To develop our business, we endeavor to use the business relationships of our management and board of directors to enter into strategic relationships, which may take the form of joint ventures with other private parties or with local government bodies, or contractual arrangements with other oil and gas companies, including those that supply equipment and other resources that we will use in our business. We may not be able to establish these strategic relationships, or if established, we may choose the wrong partner or we may not be able to maintain them. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to take to fulfill our obligations to these partners or maintain our relationships. If we fail to make the cash calls required by our joint venture partners in the joint ventures we do not operate, we may be required to forfeit our interests in these joint ventures. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

In addition, in cases where we are the operator, our partners may not be able to fulfill their obligations, which would require us to either take on their obligations in addition to our own, or possibly forfeit our rights to the area involved in the joint venture. In addition, despite our partner’s failure to fulfill its obligations, if we elect to terminate such relationship, we may be involved in litigation with such partners or may be required to pay amounts in settlement to avoid litigation despite such partner’s failure to perform. Alternatively, our partners may be able to fulfill their obligations, but will not agree with our proposals as operator of the property. In this case there could be disagreements between joint venture partners that could be costly in terms of dollars, time, deterioration of the partner relationship, and/or our reputation as a reputable operator. These joint venture partners may not comply with their responsibilities or may engage in conduct that could result in liability to Gran Tierra.

In cases where we are not the operator of the joint venture, the success of the projects held under these joint ventures is substantially dependent on our joint venture partners. The operator is responsible for day-to-day operations, safety, environmental compliance and relationships with government and vendors.

We have various work obligations on our blocks that must be fulfilled or we could face penalties, or lose our rights to those blocks if we do not fulfill our work obligations. Failure to fulfill obligations in one block can also have implications on the ability to operate other blocks in the country ranging from delays in government process and procedure to loss of rights in other blocks or in the country as a whole. Failure to meet obligations in one particular country may also have an impact on our ability to operate in others.

Our Business is Subject to Local Legal, Political and Economic Factors Which are Beyond Our Control, Which Could Impair Our Ability to Expand Our Operations or Operate Profitably.

We operate our business in Colombia, Argentina, Peru, and Brazil, and may eventually expand to other countries in the world. Exploration and production operations in foreign countries are subject to legal, political and economic uncertainties, including terrorism, military repression, social unrest, strikes by local or national labor groups, interference with private contract rights (such as privatization), extreme fluctuations in currency exchange rates, high rates of inflation, exchange controls, changes in tax rates, changes in laws or policies affecting environmental issues (including land use and water use), workplace safety, foreign investment, foreign trade, investment or taxation, as well as restrictions imposed on the oil and natural gas industry, such as restrictions on production, price controls and export controls. For example, starting on November 21, 2008, we were forced to reduce production in Colombia on a gradual basis, culminating on December 11, 2008 when we suspended all production from the Santana, Guayuyaco and Chaza blocks in the Putumayo Basin. This temporary suspension of production operations was the result of a declaration of a state of emergency and force majeure by Ecopetrol due to a general strike in the region. In January 2009, the situation was resolved and we were able to resume production and sales shipments. In 2010, there has been an increased presence of illegitimate unionization activities in the Putumayo Basin by the Sindicato de Trabajadores Petroleros del Putumayo, which has disrupted our operations from time to time and may do so in the future.

South America has a history of political and economic instability. This instability could result in new governments or the adoption of new policies, laws or regulations that might assume a substantially more hostile attitude toward foreign investment, including the imposition of additional taxes. In an extreme case, such a change could result in termination of contract rights and expropriation of foreign-owned assets. Any changes in oil and gas or investment regulations and policies or a shift in political attitudes in Argentina, Colombia, Peru or Brazil or other countries in which we intend to operate are beyond our control and may significantly hamper our ability to expand our operations or operate our business at a profit.

For instance, changes in laws in the jurisdiction in which we operate or expand into with the effect of favoring local enterprises, and changes in political views regarding the exploitation of natural resources and economic pressures, may make it more difficult for us to negotiate agreements on favorable terms, obtain required licenses, comply with regulations or effectively adapt to adverse economic changes, such as increased taxes, higher costs, inflationary pressure and currency fluctuations. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These licenses and agreements may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. Property right transfers, joint ventures, licenses, license applications or other legal arrangements pursuant to which we operate may be adversely affected by the actions of government authorities and the effectiveness of and enforcement of our rights under such arrangements in these jurisdictions may be impaired.

Foreign Currency Exchange Rate Fluctuations May Affect Our Financial Results.

We expect to sell our oil and natural gas production under agreements that will be denominated in United States dollars and foreign currencies. Many of the operational and other expenses we incur will be paid in the local currency of the country where we perform our operations. Our production in Argentina is primarily invoiced in United States dollars, but payment is made in Argentine pesos, at the then-current exchange rate. As a result, we are exposed to translation risk when local currency financial statements are translated to United States dollars, our company's functional currency. Since we began operating in Argentina (September 1, 2005), the rate of exchange between the Argentine peso and U.S. dollar has varied between 3.05 pesos to one U.S. dollar to 4.08 pesos to the U.S. dollar, a fluctuation of approximately 34%. Exchange rates between the Colombian peso and U.S. dollar have varied between 2,632 pesos to one U.S. dollar to 1,648 pesos to one U.S. dollar since September 1, 2005, a fluctuation of

approximately 60%.

In addition, a foreign exchange loss of $5.2 million, of which $4.6 million is an unrealized non-cash foreign exchange loss, was recorded for the three months ended March 31, 2011 and was primarily due to the translation of a deferred tax liability recorded on the purchase of Solana. The deferred tax liability is denominated in Colombian pesos and the devaluation of 2% in the U.S. dollar against the Colombian Peso in the period ended March 31, 2011 resulted in the foreign exchange loss.

Exchange Controls and New Taxes Could Materially Affect our Ability to Fund Our Operations and Realize Profits from Our Foreign Operations.

Foreign operations may require funding if their cash requirements exceed operating cash flow. To the extent that funding is required, there may be exchange controls limiting such funding or adverse tax consequences associated with such funding. In addition, taxes and exchange controls may affect the dividends that we receive from foreign subsidiaries.

Exchange controls may prevent us from transferring funds abroad. For example, the Argentine government has imposed a number of monetary and currency exchange control measures that include restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad, with certain exceptions for transfers related to foreign trade and other authorized transactions approved by the Argentine Central Bank. The Central Bank may require prior authorization and may or may not grant such authorization for our Argentine subsidiaries to make dividend payments to us and there may be a tax imposed with respect to the expatriation of the proceeds from our foreign subsidiaries.

Competition in Obtaining Rights to Explore and Develop Oil and Gas Reserves and to Market Our Production May Impair Our Business.

The oil and gas industry is highly competitive. Other oil and gas companies will compete with us by bidding for exploration and production licenses and other properties and services we will need to operate our business in the countries in which we expect to operate. Additionally, other companies engaged in our line of business may compete with us from time to time in obtaining capital from investors. Competitors include larger, foreign owned companies, which, in particular, may have access to greater resources than us, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests. In the event that we do not succeed in negotiating additional property acquisitions, our future prospects will likely be substantially limited, and our financial condition and results of operations may deteriorate.

Maintaining Good Community Relationships and Being a Good Corporate Citizen may be Costly and Difficult to Manage.

Our operations have a significant effect on the areas in which we operate. To enjoy the confidence of local populations and the local governments, we must invest in the communities where were operate. In many cases, these communities are impoverished and lack many resources taken for granted in North America. The opportunities for investment are large, many and varied; however, we must be careful to invest carefully in projects that will truly benefit these areas. Improper management of these investments and relationships could lead to a delay in operations, loss of license or major impact to our reputation in these communities, which could adversely affect our business.

Our Operations Involve Substantial Costs and are Subject to Certain Risks Because the Oil and Gas Industries in the Countries in Which We Operate are Less Developed.

The oil and gas industry in South America is not as efficient or developed as the oil and gas industry in North America. As a result, our exploration and development activities may take longer to complete and may be more expensive than similar operations in North America. The availability of technical expertise, specific equipment and supplies may be more limited than in North America. We expect that such factors will subject our international operations to economic and operating risks that may not be experienced in North American operations.

Negative Political and Regulatory Developments in Argentina May Negatively Affect our Operations.

The crude oil and natural gas industry in Argentina is subject to extensive regulation including land tenure, exploration, development, production, refining, transportation, and marketing, imposed by legislation enacted by various levels of government and, with respect to pricing and taxation of crude oil and natural gas, by agreements among the federal and provincial governments, all of which are subject to change and could have a material impact on our business in Argentina. The Federal Government of Argentina has implemented controls for domestic fuel prices and has placed a tax on crude oil and natural gas exports.

In October 2010, ENARGAS issued Regulation I-1410 aiming at securing the supply of natural gas to residential consumers and small industry given the decline in gas production and the expected growing demand for gas. The regulation includes all the procedures created by the authorities since 2004 (restrictions of exports, deviation of gas sales, to residential consumption) and gives ENARGAS power to control gas marketing in order to assure the supply of gas to residential consumers and small industry.

Any future regulations that limit the amount of oil and gas that we could sell or any regulations that limit price increases in Argentina and elsewhere could severely limit the amount of our revenue and affect our results of operations.

Currently most oil and gas producers in Argentina are operating without sales contracts. In 2008, a new withholding tax regime for exports was introduced without specific guidance as to its application. The domestic price was regulated in a similar way, so that both exported and domestically sold products were priced the same. Producers and refiners of oil in Argentina were unable to determine an agreed sales price for oil deliveries to refineries. In our case, the refineries' price offered to oil producers reflects their price received, less taxes and operating costs and their usual mark up. Along with most other oil producers in Argentina, we are continuing negotiating sales on a spot price basis with one refiner, Refineria del Norte S.A, and the price is negotiated on a month by month basis. As a result of our acquisition of Petrolifera, we are now also selling our crude oil through short term contracts to Shell Compania Argentina de Petroleo S.A. and YPF S.A. and natural gas to Rafael G. Albenesi S.A. The Provincial Governments have also been hurt by these changes as their effective royalty take has been reduced and capital investment in oilfields has declined, and so they are lobbying to change the situation. We are working with other oil and gas producers in the area, as well as Refineria del Norte S.A., to lobby the federal government for change. The government introduced the Petro Plus and Gas Plus programs in 2009, which grant higher prices to producers that sell production from new reserves. This is a positive step forward that will hopefully lead to further opening of price regulation in Argentina.

*Negative Political Developments in Peru May Negatively Affect our Proposed Operations.

A national election in Peru was held in April 2011 but since no presidential candidate received the requisite number of votes, a second election is scheduled to be held on June 5, 2011 to determine the winner. The election will determine the successor to the current president, as well as 130 members of the Peruvian Congress and 5 members of the Andean Parliament. The winners will be sworn in on July 28, 2011. The newly elected political regime may adopt new policies, laws and regulations that are more hostile toward foreign investment which may result in the imposition of additional taxes, the adoption of regulations that limit price increases, termination of contract rights, or the expropriation of foreign-owned assets. While we do not have any reserves or any producing wells in Peru at this point, we do hold significant land holdings in Peru and such actions by the newly elected political regime could limit the amount of our future revenue in that country and affect our results of operations.

The United States Government May Impose Economic or Trade Sanctions on Colombia That Could Result In A Significant Loss To Us.

Colombia is among several nations whose eligibility to receive foreign aid from the United States is dependent on its progress in stemming the production and transit of illegal drugs, which is subject to an annual review by the President of the United States. Although Colombia is currently eligible for such aid, Colombia may not remain eligible in the future. A finding by the President that Colombia has failed demonstrably to meet its obligations under international counternarcotics agreements may result in any of the following:

• all bilateral aid, except anti-narcotics and humanitarian aid, would be suspended;

• the Export-Import Bank of the United States and the Overseas Private Investment Corporation would not approve financing for new projects in Colombia;

• United States representatives at multilateral lending institutions would be required to vote against all loan requests from Colombia, although such votes would not constitute vetoes; and

• the President of the United States and Congress would retain the right to apply future trade sanctions.

Each of these consequences could result in adverse economic consequences in Colombia and could further heighten the political and economic risks associated with our operations there. Any changes in the holders of significant government offices could have adverse consequences on our relationship with ANH and Ecopetrol and the Colombian government's ability to control guerrilla activities and could exacerbate the factors relating to our foreign operations. Any sanctions imposed on Colombia by the United States government could threaten our ability to obtain necessary financing to develop the Colombian properties or cause Colombia to retaliate against us, including by nationalizing our Colombian assets. Accordingly, the imposition of the foregoing economic and trade sanctions on Colombia would likely result in a substantial loss and a decrease in the price of our common stock. The United States may impose sanctions on Colombia in the future, and we cannot predict the effect in Colombia that these sanctions might cause.

We May Be Unable to Obtain Additional Capital That We Will Require to Implement Our Business Plan, Which Could Restrict Our Ability to Grow.

We expect that our existing cash resources will be sufficient to fund our currently planned activities. We may require additional capital to expand our exploration and development programs to additional properties. We may be unable to obtain additional capital required.

When we require additional capital we plan to pursue sources of capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. We may not be successful in locating suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do succeed in raising additional capital, future financings may be dilutive to our stockholders, as we could issue additional shares of common stock or other equity to investors. In addition, debt and other mezzanine financing may involve a pledge of assets and may be senior to interests of equity holders. We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertibles and warrants, which will adversely impact our financial results.

Our ability to obtain needed financing may be impaired by factors such as the capital markets (both generally and in the oil and gas industry in particular), the location of our oil and natural gas properties in South America, prices of oil and natural gas on the commodities markets (which will impact the amount of asset-based financing available to us), and/or the loss of key management. Further, if oil and/or natural gas prices on the commodities markets decrease, then our revenues will likely decrease, and such decreased revenues may increase our requirements for capital. Some of the contractual arrangements governing our exploration activity may require us to commit to certain capital expenditures, and we may lose our contract rights if we do not have the required capital to fulfill these commitments. If the amount of capital we are able to raise from financing activities, together with our cash flow from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our activities), we may be required to curtail our operations.

*We May Not Be Able To Effectively Manage Our Growth, Which May Harm Our Profitability.

Our strategy envisions continually expanding our business, both organically and through acquisition of other properties and companies. If we fail to effectively manage our growth or integrate successfully our acquisitions, our financial results could be adversely affected. Growth may place a strain on our management systems and resources. In particular, on March 18, 2011, we acquired Petrolifera (through a plan of arrangement), a company with substantial assets featuring both high working interest and operatorship in three of the four South American countries in which we operate. For the acquisition to be successful, we must be successful at retaining key employees and integrating Petrolifera's operations. Such integration efforts place a significant burden on our management and internal resources. The diversion of management attention and any difficulties encountered in the integration process could harm our business, financial condition and results of operations. In addition, we must continue to refine and expand our business development capabilities, our systems and processes and our access to financing sources. As we grow, we must continue to hire, train, supervise and manage new or acquired employees. We may not be able to:

• expand our systems effectively or efficiently or in a timely manner;

• allocate our human resources optimally;

• identify and hire qualified employees or retain valued employees; or

• incorporate effectively the components of any business that we may acquire in our effort to achieve growth.

If we are unable to manage our growth and our operations our financial results could be adversely affected by inefficiencies, which could diminish our profitability.

Risks Related to Our Industry

Unless We are Able to Replace Our Reserves, and Develop Oil and Gas Reserves on an Economically Viable Basis, Our Reserves, Production and Cash Flows May Decline as a Result.

Our future success depends on our ability to find, develop and acquire additional oil and gas reserves that are economically recoverable. Without successful exploration, development or acquisition activities, our reserves and production will decline. We may not be able to find, develop or acquire additional reserves at acceptable costs.

To the extent that we succeed in discovering oil and/or natural gas, reserves may not be capable of production levels we project or in sufficient quantities to be commercially viable. On a long-term basis, our company's viability depends on our ability to find or acquire, develop and commercially produce additional oil and gas reserves. Without the addition of reserves through exploration, acquisition or development activities, our reserves and production will decline over time as reserves are produced. Our future reserves will depend not only on our ability to develop then-existing properties, but also on our ability to identify and acquire additional suitable producing properties or prospects, to find markets for the oil and natural gas we develop and to effectively distribute our production into our markets. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-downs of connected wells resulting from extreme weather conditions, problems in storage and distribution and adverse geological and technical conditions. While we will endeavor to effectively manage these conditions, we may not be able to do so optimally, and we will not be able to eliminate them completely in any case. Therefore, these conditions could diminish our revenue and cash flow levels and result in the impairment of our oil and natural gas interests.

We are Required to Obtain Licenses and Permits to Conduct Our Business and Failure to Obtain These Licenses Could Cause Significant Delays and Expenses That Could Materially Impact Our Business.

We are subject to licensing and permitting requirements relating to exploring and drilling for and development of oil and natural gas, including seismic permits. We may not be able to obtain, sustain or renew such licenses and permits on a timely basis or at all. Regulations and policies relating to these licenses and permits may change, be implemented in a way that we do not currently anticipate or take significantly greater time to obtain. These licenses and permits are subject to numerous requirements, including compliance with the environmental regulations of the local governments. As we are not the operator of all the joint ventures we are currently involved in, we may rely on the operator to obtain all necessary permits and licenses. If we fail to comply with these requirements, we could be prevented from drilling for oil and natural gas, and we could be subject to civil or criminal liability or fines. Revocation or suspension of our

environmental and operating permits could have a material adverse effect on our business, financial condition and results of operations.

Our Exploration for Oil and Natural Gas Is Risky and May Not Be Commercially Successful, Impairing Our Ability to Generate Revenues from Our Operations.

Oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Our exploration expenditures may not result in new discoveries of oil or natural gas in commercially viable quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions, such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. If exploration costs exceed our estimates, or if our exploration efforts do not produce results which meet our expectations, our exploration efforts may not be commercially successful, which could adversely impact our ability to generate revenues from our operations.

Estimates of Oil and Natural Gas Reserves that We Make May Be Inaccurate and Our Actual Revenues May Be Lower and Our Operating Expenses may be Higher than Our Financial Projections.

We make estimates of oil and natural gas reserves, upon which we will base our financial projections. We make these reserve estimates using various assumptions, including assumptions as to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Some of these assumptions are inherently subjective, and the accuracy of our reserve estimates relies in part on the ability of our management team, engineers and other advisors to make accurate assumptions. Economic factors beyond our control, such as interest rates and exchange rates, will also impact the value of our reserves. The process of estimating oil and gas reserves is complex, and will require us to use significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each property. As a result, our reserve estimates will be inherently imprecise. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from those we estimate. If actual production results vary substantially from our reserve estimates, this could materially reduce our revenues and result in the impairment of our oil and natural gas interests.

Exploration, development, production, marketing (including distribution costs) and regulatory compliance costs (including taxes) will substantially impact the net revenues we derive from the oil and gas that we produce. These costs are subject to fluctuations and variation in different locales in which we operate, and we may not be able to predict or control these costs. If these costs exceed our expectations, this may adversely affect our results of operations. In addition, we may not be able to earn net revenue at our predicted levels, which may impact our ability to satisfy our obligations.

*If Oil and Natural Gas Prices Decrease, We May be Required to Take Write-Downs of the Carrying Value of Our Oil and Natural Gas Properties.

We follow the full cost method of accounting for our oil and gas properties. A separate cost center is maintained for expenditures applicable to each country in which we conduct exploration and/or production activities. Under this method, the net book value of properties on a country-by-country basis, less related deferred income taxes, may not exceed a calculated “ceiling”. The ceiling is the estimated after tax future net revenues from proved oil and gas properties, discounted at 10% per year. In calculating discounted future net revenues, oil and natural gas prices are determined using the average price during the 12 months period prior to the ending date of the period covered by the balance sheet, calculated as an unweighted arithmetic average of the first-day-of-the month price for each month within such period for that oil and natural gas. That average price is then held constant, except for changes which are fixed and determinable by existing contracts. The net book value is compared to the ceiling on a quarterly basis. The excess, if any, of the net book value above the ceiling is required to be written off as an expense. Under full cost accounting rules, any write-off recorded may not be reversed even if higher oil and natural gas prices increase the

ceiling applicable to future periods. Future price decreases could result in reductions in the carrying value of such assets and an equivalent charge to earnings. In 2010, we recorded a ceiling test impairment loss of $23.6 million in our Argentina cost center. In counties where we do not have proved reserves, dry wells drilled in a period would directly result in a ceiling test impairment for that period. In the three months ended March 31, 2011, we recorded a ceiling test impairment loss of $31.9 million in our Peru cost center related to our exploration projects.

Drilling New Wells and Producing Oil and Natural Gas from Existing Facilities Could Result in New Liabilities, Which Could Endanger Our Interests in Our Properties and Assets.

There are risks associated with the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, craterings, sour gas releases, fires and spills. Earthquakes or weather related phenomena such as heavy rain, landslides, storms and hurricanes can also cause problems in drilling new wells. There are also risks in producing oil and natural gas from existing facilities. For example, the Valle Morado GTE.St.VMor-2001 re-entry operations started in the third quarter of 2010, with integrity testing and remediation operations required for the sidetrack operations. Due to operational difficulties, the initial side-track attempt was not successful. The operation was placed on standby pending the arrival of additional side-track equipment and operations recommenced in fourth quarter of 2010. In February 2011, these operations were suspended and the wellbore will be abandoned due to a number of operational challenges encountered. Gran Tierra continues to review alternatives associated with the field development. Also for example, on February 7, 2009 we experienced an incident at our Juanambu 1 well, involving a fire in a generator, resulting in total damage to equipment estimated at $500,000, and production in the amount of approximately $125,000 being deferred due to shutting down production facilities while dealing with the incident. The occurrence of any of these events could significantly reduce our revenues or cause substantial losses, impairing our future operating results. We may become subject to liability for pollution, blow-outs or other hazards. Incidents such as these can lead to serious injury, property damage and even loss of life. We generally obtain insurance with respect to these hazards, but such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such liabilities could reduce the funds available to us or could, in an extreme case, result in a total loss of our properties and assets. Moreover, we may not be able to maintain adequate insurance in the future at rates that are considered reasonable. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Our Inability to Obtain Necessary Facilities and/or Equipment Could Hamper Our Operations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment, transportation, power and technical support in the particular areas where these activities will be conducted, and our access to these facilities may be limited. To the extent that we conduct our activities in remote areas, needed facilities or equipment may not be proximate to our operations, which will increase our expenses. Demand for such limited equipment and other facilities or access restrictions may affect the availability of such equipment to us and may delay exploration and development activities. The quality and reliability of necessary facilities or equipment may also be unpredictable and we may be required to make efforts to standardize our facilities, which may entail unanticipated costs and delays. Shortages and/or the unavailability of necessary equipment or other facilities will impair our activities, either by delaying our activities, increasing our costs or otherwise.

Decommissioning Costs Are Unknown and May be Substantial; Unplanned Costs Could Divert Resources from Other Projects.

We may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which we use for production of oil and gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as “decommissioning.” We have determined that we require a reserve account for these potential costs in respect of our current properties and facilities at this time, and have booked such reserve on our financial statements. If decommissioning is required before economic depletion of our properties or if our estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, we may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy decommissioning costs could impair our ability to focus capital investment in other areas of our business.

Prices and Markets for Oil and Natural Gas Are Unpredictable and Tend to Fluctuate Significantly, Which Could Reduce Profitability, Growth and the Value of Gran Tierra.

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years. The average price for WTI per barrel was $66 in 2006, $72 in 2007, $100 in 2008, $62 in 2009, $79 in 2010 and $94 for the three months ended March 31, 2011 demonstrating the inherent volatility in the market. We expect that prices will fluctuate in the future. Price fluctuations will have a significant impact upon our revenue, the return from our oil and gas reserves and on our financial condition generally. Price fluctuations for oil and natural gas commodities may also impact the investment market for companies engaged in the oil and gas industry. Furthermore, prices which we receive for our oil sales, while based on international oil prices, are established by contract with purchasers with prescribed deductions for transportation and quality differentials. These differentials can change over time and have a detrimental impact on realized prices. Future decreases in the prices of oil and natural gas may have a material adverse effect on our financial condition, the future results of our operations and quantities of reserves recoverable on an economic basis.

In addition, oil and natural gas prices in Argentina are effectively regulated and during 2009 and 2010 were substantially lower than those received in North America. Oil prices in Colombia are related to international market prices, but adjustments that are defined by contract with Ecopetrol, the purchaser of most of the oil that we produce in Colombia, may cause realized prices to be lower than those received in North America.

Penalties We May Incur Could Impair Our Business.

Our exploration, development, production and marketing operations are regulated extensively under foreign, federal, state and local laws and regulations. Under these laws and regulations, we could be held liable for personal injuries, property damage, site clean-up and restoration obligations or costs and other damages and liabilities. We may also be required to take corrective actions, such as installing additional safety or environmental equipment, which could require us to make significant capital expenditures. Failure to comply with these laws and regulations may also result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties, including the assessment of natural resource damages. We could be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against them. As a result of these laws and regulations, our future business prospects could deteriorate and our profitability could be impaired by costs of compliance, remedy or indemnification of our employees, reducing our profitability.

Policies, Procedures and Systems to Safeguard Employee Health, Safety and Security May Not be Adequate.

Oil and natural gas exploration and production is dangerous. Detailed and specialized policies, procedures and systems are required to safeguard employee health, safety and security. We have undertaken to implement best practices for employee health, safety and security; however, if these policies, procedures and systems are not adequate, or employees do not receive adequate training, the consequences can be severe including serious injury or loss of life, which could impair our operations and cause us to incur significant legal liability.

Environmental Risks May Adversely Affect Our Business.

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also

requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require us to incur costs to remedy such discharge. The application of environmental laws to our business may cause us to curtail our production or increase the costs of our production, development or exploration activities.

Our Insurance May Be Inadequate to Cover Liabilities We May Incur.

Our involvement in the exploration for and development of oil and natural gas properties may result in our becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although we have insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, we may choose not to obtain insurance to protect against specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to us. If we suffer a significant event or occurrence that is not fully insured, or if the insurer of such event is not solvent, we could be required to divert funds from capital investment or other uses towards covering our liability for such events.

Challenges to Our Properties May Impact Our Financial Condition.

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interest in and to the properties to which the title defects relate.

Furthermore, applicable governments may revoke or unfavorably alter the conditions of exploration and development authorizations that we procure, or third parties may challenge any exploration and development authorizations we procure. Such rights or additional rights we apply for may not be granted or renewed on terms satisfactory to us.

If our property rights are reduced, whether by governmental action or third party challenges, our ability to conduct our exploration, development and production may be impaired.

We Will Rely on Technology to Conduct Our Business and Our Technology Could Become Ineffective Or Obsolete.

We rely on technology, including geographic and seismic analysis techniques and economic models, to develop our reserve estimates and to guide our exploration and development and production activities. We will be required to continually enhance and update our technology to maintain its efficacy and to avoid obsolescence. The costs of doing so may be substantial, and may be higher than the costs that we anticipate for technology maintenance and development. If we are unable to maintain the efficacy of our technology, our ability to manage our business and to compete may be impaired. Further, even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would were our technology more efficient.

Risks Related to Our Common Stock

The Market Price of Our Common Stock May Be Highly Volatile and Subject to Wide Fluctuations.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including but not limited to:

• dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with acquisitions of other companies or assets;

• announcements of new acquisitions, reserve discoveries or other business initiatives by our competitors;

• fluctuations in revenue from our oil and natural gas business;

• changes in the market and/or WTI price for oil and natural gas commodities and/or in the capital markets generally;

• changes in the demand for oil and natural gas, including changes resulting from the introduction or expansion of alternative fuels; and

• changes in the social, political and/or legal climate in the regions in which we will operate.

In addition, the market price of our common stock could be subject to wide fluctuations in response to various factors, which could include the following, among others:

• quarterly variations in our revenues and operating expenses;

• changes in the valuation of similarly situated companies, both in our industry and in other industries;

• changes in analysts' estimates affecting our company, our competitors and/or our industry;

• changes in the accounting methods used in or otherwise affecting our industry;

• additions and departures of key personnel;

• announcements of technological innovations or new products available to the oil and natural gas industry;

• announcements by relevant governments pertaining to incentives for alternative energy development programs;

• fluctuations in interest rates, exchange rates and the availability of capital in the capital markets; and

• significant sales of our common stock, including sales by future investors in future offerings we expect to make to raise additional capital.

These and other factors are largely beyond our control, and the impact of these risks, singularly or in the aggregate, may result in material adverse changes to the market price of our common stock and/or our results of operations and financial condition.

We Do Not Expect to Pay Dividends In the Foreseeable Future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in our common stock.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On twelve separate dates beginning on January 1, 2011 and ending on March 31, 2011, we sold an aggregate of 210,000 shares of our common stock for an aggregate purchase price of $220,500. These shares were issued to thirteen holders of warrants to purchase shares of our common stock upon exercise of the warrants. The shares were issued to these holders in reliance on Section 4(2) under the Securities Act, in that they were issued to the original purchasers of the warrants, who had represented to us in the private placement of the warrants that they were accredited investors as defined in Regulation D under the Securities Act.

ITEM 5. OTHER INFORMATION

On February 9, 2011, we reported in a Form 8-K cash compensation arrangements for our named executive officers. There was an error in the 2011 salary for Julian Garcia, which has been corrected in Exhibit 10.1 hereto.

ITEM 6. EXHIBITS

See Index to Exhibits at the end of this Report, which is incorporated by reference here. The Exhibits listed in the accompanying Index to Exhibits are filed as part of this report.

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.

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| Date: May 10, 2011 | /s/ Dana Coffield<br>By: Dana Coffield |
| Its: Chief Executive Officer | |
| Date: May 10, 2011 | /s/ Martin Eden<br>By: Martin Eden |
| Its: Chief Financial Officer | |

EXHIBIT INDEX

| Exhibit No. | Description | Reference |
|---|---|---|
| 2.1 | Arrangement Agreement, dated as of July 28, 2008, by and among Gran Tierra Energy Inc., Solana Resources Limited and Gran Tierra Exchangeco Inc. | Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K (SEC File No. 001-34018), filed with the SEC on August 1, 2008. |
| 2.2 | Amendment No. 2 to Arrangement Agreement, which supersedes Amendment No. 1 thereto and includes the Plan of Arrangement, including appendices | Incorporated by reference to Exhibit 2.2 to the Registration Statement on Form S-3 (SEC File No. 333-153376), filed with the SEC on October 10, 2008. |

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| 2.3 | Arrangement Agreement, dated January 17, 2011, by and between Gran Tierra Energy Inc. and Petrolifera Petroleum Limited.# | Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed with the SEC on January 21, 2011 (SEC File No. 001-34018). |
| 3.1 | Amended and Restated Articles of Incorporation. | Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q/A (SEC File No. 001-34018), filed with the SEC on January 6, 2010. |
| 3.2 | Amended and Restated Bylaws of Gran Tierra Energy Inc. | Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 22, 2008 (SEC File No. 000-52594). |
| 4.1 | Reference is made to Exhibits 3.1 to 3.2. | |
| 4.2 | Form of Warrant issued to institutional and retail investors in connection with the private offering in June 2006. | Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2006 (SEC File No. 333-111656). |
| 4.3 | Details of the Goldstrike Special Voting Share. | Incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-KSB/A for the period ended December 31, 2005 and filed with the Securities and Exchange on April 21, 2006 (SEC File No. 333-111656). |
| 4.4 | Goldstrike Exchangeable Share Provisions. | Incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-KSB/A for the period ended December 31, 2005 and filed with the Securities and Exchange on April 21, 2006 (SEC File No. 333-111656). |
| 4.5 | Provisions Attaching to the GTE–Solana Exchangeable Shares. | Incorporated by reference to Annex E to the Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on October 14, 2008 (SEC File No. 001-34018). |
| 4.6 | Supplemental Warrant Indenture, dated as of March 18, 2011, among Gran Tierra Energy Inc., Petrolifera Petroleum Limited, and Computershare Trust Company of Canada. | Filed herewith. |
| 10.1 | Cash Compensation Arrangements with Named Executive Officers | Filed herewith. |
| 10.2 | Form of Voting Support Agreement Respecting the Arrangement Involving Petrolifera Petroleum Limited and Gran Tierra Energy Inc. (Petrolifera Directors and Officers) | Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on January 21, 2011 (SEC File No. 001-34018). |

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| 10.3 | Form of Voting Support Agreement Respecting the Arrangement Involving Petrolifera Petroleum Limited and Gran Tierra Energy Inc. (Petrolifera largest stockholder) | Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed with the SEC on January 21, 2011 (SEC File No. 001-34018). |
| 10.4 | Third Amendment to Credit Agreement, dated as of January 20, 2011, among Solana Resources Limited, Gran Tierra Energy Inc., BNP Paribas and Other Lenders | Incorporated by reference to Exhibit 10.47 to the Annual Report on Form 10-K, filed with the SEC on February 25, 2011 (SEC File No. 001-34018). |

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| 10.5 | Consulting Services Agreement, between David Hardy and Gran Tierra Energy Inc. | Filed herewith. |
| 10.6 | Executive Employment Agreement, dated January 20, 2010, between Gran Tierra Energy Inc. and David Hardy. | Filed herewith. |
| 31.1 | Certification of Principal Executive Officer | Filed herewith. |
| 31.2 | Certification of Principal Financial Officer | Filed herewith. |
| 32.1 | Section 1350 Certifications. | Filed 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 Securities and Exchange Commission.

* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.