

GRAN TIERRA ENERGY INC.
Form 10-Q
August 08, 2016

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

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

For the quarterly period ended June 30, 2016

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

200, 150 13 Avenue S.W.
Calgary, Alberta, Canada T2R 0V2
(Address of principal executive offices, including zip code)
(403) 265-3221
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 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

On August 2, 2016, the following number of shares of the registrant's capital stock were outstanding: 289,322,888 shares of the registrant's Common Stock, \$0.001 par value; one share of Special A Voting Stock, \$0.001 par value, representing 3,638,889 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 4,875,177 shares of Gran Tierra Exchangeco Inc., which are exchangeable on a 1-for-1 basis into the registrant's Common Stock.

Gran Tierra Energy Inc.

Quarterly Report on Form 10-Q

Quarterly Period Ended June 30, 2016

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CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of our management for future operations, covenant compliance, capital spending plans and those statements preceded by, followed by or that otherwise include the words "believe", "expect", "anticipate", "intend", "estimate", "project", "target", "goal", "plan", "objective", "should", or similar expressions or variations on these expressions are forward-looking statements. We can give no assurances that the assumptions upon which the forward-looking statements are based will prove to be correct or that, even if correct, intervening circumstances will not occur to cause actual results to be different than expected. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements, including, but not limited to, those set out in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and in Part I, Item 1A "Risk Factors" in our 2015 Annual Report on Form 10-K. The information included herein is given as of the filing date of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission ("SEC") and, 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 forward-looking statement is based.

GLOSSARY OF OIL AND GAS TERMS

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

bbl	barrel	BOE	barrels of oil equivalent
Mbbl	thousand barrels	BOEPD	barrels of oil equivalent per day
MMbbl	million barrels	bopd	barrels of oil per day
NAR	net after royalty	Mcf	thousand cubic feet

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

PART I - Financial Information

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
OIL AND NATURAL GAS SALES (NOTE 4)	\$71,713	\$ 69,350	\$ 129,116	\$ 145,581
EXPENSES				
Operating	17,748	17,758	36,815	40,419
Transportation	6,217	6,375	18,545	15,148
Depletion, depreciation and accretion (Note 4)	31,884	39,188	68,796	88,328
Asset impairment (Notes 4 and 5)	92,843	30,285	149,741	67,299
General and administrative (Note 4)	7,975	10,298	16,261	17,592
Severance	281	1,988	1,299	6,366
Equity tax (Note 9)	—	—	3,051	3,769
Foreign exchange loss (gain)	781	2,969	1,566	(8,569)
Financial instruments gain (Note 12)	(1,072)	(1,366)	(227)	(1,408)
	156,657	107,495	295,847	228,944
GAIN ON ACQUISITION (NOTE 3)	—	—	11,712	—
INTEREST EXPENSE (NOTE 6)	(2,201)	—	(2,720)	—
INTEREST INCOME	749	382	1,198	803
LOSS BEFORE INCOME TAXES (NOTE 4)	(86,396)	(37,763)	(156,541)	(82,560)
INCOME TAX (EXPENSE) RECOVERY				
Current	(5,778)	(5,684)	(7,801)	(8,109)
Deferred	28,615	4,883	55,751	7,239
	22,837	(801)	47,950	(870)
NET LOSS AND COMPREHENSIVE LOSS	\$(63,559)	\$ (38,564)	\$(108,591)	\$(83,430)
NET LOSS PER SHARE - BASIC AND DILUTED	\$(0.21)	\$(0.13)	\$(0.37)	\$(0.29)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC AND DILUTED (Note 7)	296,565,530	286,393,772	295,188,878	286,294,595

(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)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 171,470	\$ 145,342
Restricted cash (Notes 3 and 5)	9,716	92
Accounts receivable	43,733	29,217
Marketable securities (Note 12)	3,979	6,250
Derivatives (Note 12)	7,014	—
Inventory (Note 5)	9,339	19,056
Taxes receivable	30,387	28,635
Other current assets	5,112	5,848
Total Current Assets	280,750	234,440
Oil and Gas Properties		
Proved	372,752	469,589
Unproved	366,079	310,771
Total Oil and Gas Properties	738,831	780,360
Other capital assets	8,432	8,633
Total Property, Plant and Equipment (Notes 4 and 5)	747,263	788,993
Other Long-Term Assets		
Restricted cash	6,750	3,317
Taxes receivable	9,497	8,276
Other long-term assets	15,578	8,511
Goodwill (Note 4)	102,581	102,581
Total Other Long-Term Assets	134,406	122,685
Total Assets (Note 4)	\$ 1,162,419	\$ 1,146,118
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 65,850	\$ 70,778
Taxes payable	1,115	1,067
Asset retirement obligation (Note 8)	2,970	2,146
Total Current Liabilities	69,935	73,991
Long-Term Liabilities		
Convertible senior notes (Notes 6 and 12)	109,145	—
Deferred tax liabilities	5,552	34,592
Asset retirement obligation (Note 8)	40,870	31,078
Other long-term liabilities	10,921	4,815
Total Long-Term Liabilities	166,488	70,485
Contingencies (Note 11)		
Subsequent Events (Note 14)		
Shareholders' Equity		

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Common Stock (Note 7) (289,322,888 and 273,442,799 shares of Common Stock and 8,514,066 and 8,572,066 exchangeable shares, par value \$0.001 per share, issued and outstanding as at June 30, 2016, and December 31, 2015, respectively)	10,202	10,186
Additional paid in capital	1,052,792	1,019,863
Deficit	(136,998)	(28,407)
Total Shareholders' Equity	925,996	1,001,642
Total Liabilities and Shareholders' Equity	\$1,162,419	\$1,146,118

(See notes to the condensed consolidated financial statements)

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities		
Net loss	\$(108,591)	\$(83,430)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and accretion (Note 4)	68,796	88,328
Asset impairment (Notes 4 and 5)	149,741	67,299
Deferred tax recovery	(55,751)	(7,239)
Stock-based compensation expense (Note 7)	3,522	1,113
Amortization of debt issuance costs (Note 6)	629	—
Cash settlement of restricted share units	(1,186)	(1,314)
Unrealized foreign exchange loss (gain)	50	(5,564)
Financial instruments gain (Note 12)	(227)	(1,408)
Cash settlement of financial instruments	47	(3,749)
Cash settlement of asset retirement obligation (Note 8)	(464)	(1,964)
Gain on acquisition (Note 3)	(11,712)	—
Net change in assets and liabilities from operating activities (Note 13)	(6,630)	(46,504)
Net cash provided by operating activities	38,224	5,568
Investing Activities		
Increase in restricted cash	(2,349)	(320)
Additions to property, plant and equipment, excluding Corporate acquisition (Note 4)	(44,587)	(91,318)
Additions to property, plant and equipment - acquisition of PetroGranada Colombia Limited (Note 5)	(19,388)	—
Changes in non-cash investing working capital	(11,059)	(77,109)
Cash paid for business combination, net of cash acquired (Note 3)	(50,909)	—
Net cash used in investing activities	(128,292)	(168,747)
Financing Activities		
Proceeds from issuance of the Notes, net of issuance costs (Note 6)	108,900	—
Proceeds from issuance of shares of Common Stock (Note 7)	5,350	602
Net cash provided by financing activities	114,250	602
Foreign exchange gain (loss) on cash and cash equivalents	1,946	(2,872)
Net increase (decrease) in cash and cash equivalents	26,128	(165,449)
Cash and cash equivalents, beginning of period	145,342	331,848
Cash and cash equivalents, end of period	\$ 171,470	\$ 166,399

Supplemental cash flow disclosures (Note 13)

(See notes to the condensed consolidated financial statements)

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

	Six Months Ended June 30, 2016	Year Ended December 31, 2015
Share Capital		
Balance, beginning of period	\$10,186	\$ 10,190
Issuance of Common Stock (Note 7)	16	—
Repurchase of Common Stock	—	(4)
Balance, end of period	10,202	10,186

Additional Paid in Capital