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

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

FORM 10-KSB/A
(Amendment No. 4)

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

For the fiscal year ended December 31, 2005

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

For the transition period from ___________ to ___________

GRAN TIERRA ENERGY INC.
(f/k/a GOLDSTRIKE INC.)
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**333-111656** (Commission File Number)	**98-0479924** (I.R.S. Employer Identification No.)
300, 611-10TH AVENUE S.W. FLOOR, 610-8TH AVENUE S.W. CALGARY, ALBERTA CANADA (Address of principal executive offices)	**(403) 265-3221** (Telephone Number)	**T2R 0B2** (Zip Code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the issuer is not required to file reports pursuant to Sections 13 or 15(d) of the Exchange Act. þ

Indicate by check mark whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 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 þ **No** o

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. þ

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

The issuer's revenues for the year ended December 31, 2005 were approximately $1,059,297.

The aggregate market value, based on the average bid and asked prices on NASD's OTC Bulletin Board on January 10, 2007 of the voting common stock, par value $0.001 per share, held by non-affiliates of the Registrant as of January 10, 2007 was approximately $80,275,265. The determination of aggregate market value includes exchangeable shares held by non-affiliates (described further below). For purposes of the determination of the above stated amount only, all directors, executive officers and 5% or more stockholders of the Registrant are presumed to be affiliates.

On January 10, 2007, the total number of outstanding shares of our common stock and outstanding exchangeable shares of Gran Tierra Goldstrike Inc. (our subsidiary known as Goldstrike Exchange Co.), which are exchangeable into our common stock, was 95,455,765. Of this total, there were outstanding 78,789,098 shares of common stock and 16,666,667 shares of common stock issuable upon the exchange of exchangeable shares. In addition, we had outstanding one share of special voting stock, through which the holders of exchangeable shares may exercise their voting rights with respect to Gran Tierra. The special voting stock generally votes together with the common stock on all matters on which the holders of our common are entitled to vote. The trustee holder of the share of special voting stock has the right to cast a number of votes equal to the number of then outstanding exchangeable shares.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format. Yes oNo x.

EXPLANATORY NOTE

This Amendment No. 4 to the Annual Report on Form 10-KSB/A is being filed for the purpose of amending the Schedule of Revenues, Royalties and Operating Cost corresponding to the 14% interest in the Palmar Largo joint venture to include certain SFAS 69 disclosures and to include an auditor's report that opines on the Schedule of Revenues, Royalties and Operating Costs corresponding to the 14% Interest in the Palmar Largo joint venture for the years ended December 31, 2004 and 2003. This Amendment No. 4 to the Annual Report on Form 10-KSB/A is also being filed for the purpose of amending this Explanatory Note to the Annual Report to describe the previous amendments made to the Annual Report. The Annual Report on Form 10-KSB was initially filed on March 10, 2006. Amendment No. 1 to the Annual Report on Form 10-KSB/A was filed on April 21, 2006, Amendment No. 2 to the Annual Report was filed on July 19, 2006 and Amendment No. 3 to the Annual Report was filed on December 6, 2006.

In order to preserve the nature and character of the disclosures as of March 10, 2006, no attempt has been made in this amendment to modify or update such disclosures for events which occurred subsequent to the original filing on March 10, 2006.

The purpose of the previous amendments to the Annual Report on Form 10-KSB was to:

- Provide additional disclosure relating to our merger with Goldstrike in a two-step process and to reflect the two step process in the table relating to our Share Capital in Note 3 to our financial statements;
- Provide disclosure of the average oil price and the average natural gas price for 2005 in the section of the Annual Report relating to Markets and Competition and to provide a table in the Production Summary which included the average oil price and the average natural gas price;
- Provide additional disclosure regarding our liquidity position and our ability to continue as a going concern in the Management's Discussion and Analysis;
- Disclose in Note 2 to our financial statements that our cost of inventory is determined using the weighted average method and that our operating expenses consist of costs incurred to operate and maintain wells and related equipment and facilities;
- Modify the disclosure in Note 5 to our financial statements to reflect accretion expense recorded in 2005 as a separate item in the table relating thereto. This expense was already included in the Asset Retirement Obligation Balance as of the end of the period as part of the obligations assumed with property acquisitions;
- Provide additional disclosure in Note 6 to our financial statements relating to the Argentine alternative minimum tax assessed for 2006;
- Provide the disclosure relating to our change in independent registered accounting firm from Moen and Company to Deloitte & Touche LLP; and
- Provide certain other conforming and other changes to the disclosures made in our initial filing of the Annual Report.

TABLE OF CONTENTS

SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-KSB contains "forward-looking" information within the meaning of the federal securities laws. This report includes statements regarding our plans, goals, strategies, intent, beliefs or current expectations. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished. These forward looking statements can be identified by the use of terms and phrases such as “believe,” “plan,” “intend,” “anticipate,” “target,” “estimate,” “expect,” ar like, and/or future-tense or conditional constructions (“may,” “could,” “should,” etc.). Items contemplating or making assumptions about, actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of management, forward-looking statements are inherently subject to known and unknown risks, business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in the our reports filed with the Securities and Exchange Commission which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

PART I

Item 1. Description of Business.

On November 10, 2005, the Closing Date, Goldstrike, Inc., the previous public reporting entity, Gran Tierra Canada and the holders of Gran Tierra Canada’s capital stock entered into a share purchase agreement, and Goldstrike and Goldstrike Exchange Co. entered into an assignment agreement. In these two transactions, the holders of Gran Tierra Canada’s capital stock acquired shares of either Goldstrike common stock or exchangeable shares of Goldstrike Exchange Co., and Goldstrike Exchange Co. acquired substantially all of Gran Tierra Canada’s capital stock. Immediately following these transactions, Goldstrike Exchange Co. acquired the remaining shares of Gran Tierra Canada outstanding after the initial share exchange for shares of common stock of Gran Tierra Energy Inc. using the same exchange ratio as used in the initial exchange. This two-step process was a part of a single transaction, whereby Gran Tierra Canada became a wholly-owned subsidiary of Goldstrike Inc. Additionally, Goldstrike changed its name to Gran Tierra Energy Inc. with the management and business operations of Gran Tierra Canada, but remains incorporated in the State of Nevada.

In the above-described transactions between Goldstrike and the holders of Gran Tierra Canada common stock, Gran Tierra Canada shareholders were permitted to elect to receive, for each share of Gran Tierra Canada’s common stock: (1) 1.5873016 exchangeable shares of Goldstrike Exchange Co. (and ancillary rights), or (2) 1.5873016 shares of common stock of Goldstrike, or (3) a combination of Goldstrike Exchange Co. exchangeable shares and Goldstrike common stock. All of Gran Tierra Canada’s shares were, through a series of exchanges, exchanged for shares of Goldstrike and/or exchangeable shares of Goldstrike Exchange Co. Each exchangeable share of Goldstrike Exchange Co. is exchangeable into one share of our common stock.

The share exchange between the former shareholders of Gran Tierra Canada and the former Goldstrike is treated as a recapitalization of Gran Tierra for financial accounting purposes. Accordingly, the historical financial statements of Goldstrike before the share purchase and assignment transactions will be replaced with the historical financial statements of Gran Tierra Canada before the share exchange in all future filings with the SEC.

Company Overview

Following the above-described transactions, our operations and management are substantially the operations and management of Gran Tierra Canada prior to the transactions. We are in the early stages of growth of our operations. The former Gran Tierra Canada was formed by an experienced management team in early 2005, which collectively has over 100 years of hands-on experience in oil and natural gas exploration and production in most of the world's principal petroleum producing regions. Our objective is to acquire and exploit international opportunities in oil and natural gas exploration, development and production, focusing on South America. We made our initial acquisition of oil and gas producing and non-producing properties in Argentina in September 2005 for a total purchase price of approximately $7 million.

Our growth strategy focuses on establishing a portfolio of producing properties, development and exploration opportunities in South America, by selective acquisitions, to provide a base for continued growth through drilling. Principal countries of interest include Argentina, Colombia and Peru. Our current interests in Argentina are in the form of participations in joint ventures/concessions operated by other companies. We hold these interests and manage activities through a wholly-owned subsidiary incorporated in Argentina and maintain a corporate office in Buenos Aires. We market our own share of crude oil and natural gas, selling these products into the domestic market.

Industry Introduction

The international oil and gas industry is extremely diverse and offers distinct opportunities for companies in different countries. The fundamentals of the industry, however, are common:

§ Oil and gas reserves tend to be distributed in a pyramid pattern. The distribution of oil and gas reserves is generally depicted as a "pyramid" with the greatest number of fields being smaller fields and with very few large fields. Because of their size, the large fields are more easily located - most have already been discovered and tend to be, though are not always, the most economical to produce.

§ Oil and gas companies tend to be distributed in a pyramid pattern. Oil and gas companies tend to be distributed in a pattern that is similar to that of oil and gas reserves. There are many small companies and few very large companies. Large companies tend to operate at the top of the resource pyramid, where rewards are larger but fewer. Smaller companies tend to operate at the base of the resource pyramid, where rewards are smaller but plentiful. Furthermore, large companies tend to divest smaller, non-core assets as they grow, and tend to acquire smaller companies that have reached a critical mass, perpetuating a cycle of growth.

§ In a mature producing area with a mature industry, the entirety of the resource pyramid is being explored and developed by both small and large oil and gas companies. Maturity is typically a function of time and market forces. Government policy can have an important role, encouraging or discouraging the full potential of the resource base and industry.

§ By its nature, finding and producing oil and gas is a risky business. Oil and gas deposits may be located miles below the earth's surface. There is no guarantee, despite the sophistication of modern exploration techniques, that oil or gas will be present in a particular location without drilling. Additionally, there is no guarantee that a discovery will be commercially viable without follow up drilling, nor can there be any guarantee that such follow up drilling will be successful. There is also no guarantee that reserves once established will produce at expected rates. Furthermore, adverse political events and changing laws/regulations can threaten the economic viability of oil and gas activity, the safety and security of workers, or the reputation of a company that conducts business outside of more stable countries. The effective management of risk is integral to the oil and gas industry.

§ The oil and gas industry is capital intensive. Investment decisions are based on long time horizons - the typical oil and gas project has a life of greater than 20 years. Economics and value are based on a long-term perspective.

§ The production profile for a substantial majority of oil and gas reservoirs is a declining trend. Production from an oil or gas field with a fixed number of wells declines over time. That decline rate varies depending on the reservoir and well/development characteristics but in general, steepest declines are earlier in the production life of the field. Typically, production falls to a point where revenues are insufficient to cover operating costs (the project reaches its economic limit) and the field is abandoned.

§ Production levels in a field can be maintained by more intensive drilling and/or enhancement of existing wells and such efforts are usually made to offset the natural decline in production. A low price environment, budgetary constraints or lack of imagination can prevent companies from taking appropriate action to offset a natural decline in production, however, this can present a significant opportunity for new operators in a high price environment. While production levels may be maintained for a period of time by more intensive drilling, such efforts can only be maintained for short periods of time and may not be effective. Moreover, such efforts may also be economically unfeasible and may be impermissible under rules and regulations applying to the field.

New Opportunities for Smaller Companies

Several forces are at work in today’s energy industry which provide a significant opportunity for smaller companies, like Gran Tierra. The greatest opportunity is in countries where resource opportunities have been undervalued or overlooked or have been considered immaterial or uneconomic by larger companies, and/or where governments are moving to realize the potential at the base of the resource pyramid by attracting smaller companies.

Company Business Plan

Our plan is to build an international oil and gas company, sensibly and aggressively, by positioning in countries where a smaller company can proliferate. Our initial focus is South America, specifically Argentina, Colombia and Peru.

Gran Tierra is applying a two-pronged approach to growth, establishing a base of production, development and exploration assets by selective acquisitions and achieving future growth through drilling. We intend to duplicate this business model across countries in South America and across regions within these countries, continually.

A key to our business plan is positioning - being in the right place at the right time with the right resources. The fundamentals of this strategy are described in more detail below:

§ Position in countries that are welcoming to foreign investment, that provide attractive fiscal terms and/or offer opportunities that have been previously ignored or undervalued;

The pace of oil and gas exploration and development in countries around the world is dictated by geology and market forces and the intermediary impact of government policy and regulation. These factors have combined today to create opportunities in South America. The initial countries of interest to Gran Tierra are Argentina - where activity has historically been dominated by the national oil company; Colombia - which has restructured its energy policies to appeal to smaller foreign companies; and Peru - which is entering a new phase of exploration activity.

§ Engage qualified, experienced and motivated professionals;

Gran Tierra’s management consists of three senior international oil and gas professionals most recently with EnCana Corporation of Canada and a fourth member most recently with Pluspetrol in South America. The management team represents over 100 years of broad and progressive international experience, in South America and across the globe. International experience provides an awareness of the fundamentals of opportunity and risk, of problems and resolutions, of what can or cannot be done by when, and what resources are needed to get the job done. It also brings with it a network of professional relationships that can be drawn upon to bring new business to Gran Tierra.

The qualifications of our board of directors complement the international experience of the management team, providing an entrepreneurial, financial and market perspective of the business of Gran Tierra by a group of individuals with successful track records overseeing the strategic growth of development stage public and private companies. In addition, the board is responsible for overseeing our financial reporting and corporate governance policies and reviewing management's compensation.

As of February 28, 2006, we had twelve full-time employees, six in Calgary and six in Buenos Aires. All employees had previously worked with members of our management team; six employees were formerly with EnCana Corporation. Qualified geophysicists, geologists and engineers are in short supply in today’s market; our management has demonstrated the ability to attract qualified professionals.

Our success equally depends on a strong support network in the legal, accounting and finance disciplines, both at a corporate level and a local level. Gran Tierra’s aggressive business plan means a succession of acquisition and operating agreements in addition and concurrent financings, all requiring significant outside support. We have quickly transitioned from a private company with no employees in January 2005, through an initial acquisition in September, to a share exchange and trading in the US market in November 2005, and subsequent transactions, and we intend to maintain this pace. Our accomplishments to date are an indication of the capabilities of our support network.

§ Establish an effective local presence;

Our management believes that establishing an effective local presence is essential for success - one that is familiar with the local operating environment, with the local oil and gas industry and with local companies and governments in order to establish and expand business in the country. We have established our office in Buenos Aires and have engaged qualified and respected local management and professionals. We intend to establish offices in all countries where we operate. We expect our presence in Buenos Aires will bring new and increasing opportunities to Gran Tierra.

§ Create alliances with companies that are active in areas and countries of interest, and consolidate initial land/property positions;

Our initial acquisitions in Argentina and our subsequent presence in Buenos Aires have brought us to the attention of other companies in the country, including partners, former employers and associates. We hope to build on these business relationships to bring other opportunities to Gran Tierra, and we expect to continue to build new relationships in the future. Such cooperation effectively multiplies our business development initiatives and develops synergies within the local industry.

§ Build a balanced portfolio of production, development, step-out and more speculative exploration opportunities;

Our initial acquisition in Argentina provided a base of production to provide immediate cash flow and upside drilling potential. We are now focusing on expansion opportunities in Argentina and entry opportunities in Colombia and Peru, which are expected to include both low and higher risk projects, with working interests that achieve an optimal balance of risk and reward.

The most effective risk mitigation in international oil and gas is diversification, and the highest chance of success results from a diverse portfolio of independent opportunities. We are moving purposefully in this regard.

§ Assess and close opportunities expeditiously;

We assess many oil and gas opportunities before we move to advance one; it is necessary to assess the technical, economic and strategic merits quickly in order to focus our efforts. This approach to business often provides a competitive advantage. During 2005, we evaluated more than 70 potential acquisition opportunities.

§ Do business in familiar countries with familiar people and familiar assets.

Our business model is a bringing together of peoples' knowledge and relationships into a single entity with a single purpose. We cannot compete with the international oil and gas industry on an open tender basis. Assets and opportunities that are offered globally will receive a premium price and chance of success for any one bidder is low. Our approach is based on niche opportunities for buyer and seller, where the combination of our strategic relationships, established technical know-how and access to capital provide a compelling opportunity to act opportunistically.

Proprietary Deal Flow

Our access to opportunities stems from a combination of experience and industry relationships of the management team and board of directors, both within and outside of South America. Deal flow is critical to growing a portfolio efficiently and effectively, to capitalize on Gran Tierra's capabilities today, and into the future as we grow in scale and our needs evolve.

Company Financial Fundamentals

A brief discussion of our financial fundamentals is provided below. Potential investors are encouraged to read the following information in conjunction with all of the other information provided in this annual report on Form 10-KSB.

Our financial results present the former Gran Tierra Canada as the predecessor company in the share exchange with Goldstrike on November 10, 2005. The financial performance of the former Goldstrike was eliminated at consolidation. Gran Tierra financials therefore present the activities of the former Gran Tierra Canada before the share exchange, including the initial Argentina acquisition on September 1, 2005.

Financial results for 2005 are defined by three principal events: the Argentina acquisitions on September 1, 2005 a series of private placements of common stock of Gran Tierra associated with the acquisitions, and the share exchange between the former holders of common shares of Goldstrike Inc. and Gran Tierra Energy Inc. on November 10, 2005.

The Argentina Acquisitions

We acquired participating interests in three joint ventures on September 1, 2005. We made a formal offer to purchase the Argentina assets of Dong Won S.A (Argentinean branch of the Korean company) on May 30, 2005, that was accepted on June 22, 2005. The total acquisition cost was approximately $7 million. Our initial offer covered interests in five properties; preferential acquisition rights were exercised on two properties but the major property of interest to Gran Tierra and two minor properties became available to us. All properties are located in the Noroeste Basin region of Northern Argentina.

§ Palmar Largo Joint Venture - Gran Tierra participation 14%, Pluspetrol (Operator) 38.15%, Repsol YPF 30%, Compañía General de Combustibles ("CGC") 17.85%.
§ Nacatimbay Concession - Gran Tierra participation 50%, CGC (Operator) 50%.
§ Ipaguazu Concession - Gran Tierra participation 50%, CGC (Operator) 50%.

Palmar Largo is the principal property, producing approximately 293 barrels per day of oil net to Gran Tierra (after 12% royalties). Acquisition cost for Palmar Largo was $6,969,659 and translated to a cost of $9.89 per barrel of proved reserves based on an estimate of remaining proven reserves of 705,000 (net before royalties) at June 1, 2005. This equates to $11.24 per barrel on reserves of 620,400 after 12% royalties. Minor volumes of natural gas and associated liquids are produced from a single well at Nacatimbay; the Ipaguazu property is non-producing. Total acquisition cost for these two properties was $63,055.

Financing

The initial seed round of financing for the former Gran Tierra Energy (the Canadian company) occurred in April and June 2005, raising approximately $1.9 million to fund our initial activities. Gran Tierra had no oil and gas revenue until September 1, 2005. We made a series of private placements of common shares beginning on August 31, 2005 to fund the Argentina acquisitions and to provide general working capital. A total of approximately $11.4 million was initially raised during 2005 from the issuance of approximately 14.3 million units consisting of one share of Gran Tierra at $0.80 per share plus one warrant to purchase one-half share at $0.625 per half-share. At December 31, 2005, our outstanding cash balance was approximately $2.2 million.

The Share Exchange

The share exchange between Goldstrike Inc. and the shareholders of the former Gran Tierra Energy Inc. (the Canadian corporation) occurred on November 10, 2005, bringing the assets, management, business operations and business plan of the former Gran Tierra into the framework of the company formerly known as Goldstrike Inc., a publicly traded company.

Prior Goldstrike Business

In connection with our recent share exchange between Goldstrike Inc. and the shareholders of the former Gran Tierra Energy Inc. (the Canadian corporation), Goldstrike transferred to Dr. Yenyou Zheng all of the capital stock of Goldstrike's wholly-owned subsidiary, Leasco. Leasco was organized to hold mineral assets located in the Province of British Columbia. Those assets consist primarily of 32 mineral claims covering approximately 700 hectares. As a result of the transfer, this line of business is owned by Dr. Yenyou Zheng, through his ownership of Leasco, and we will not pursue any of those mineral claims.

Markets and Competition

We market our own share of production in Argentina. Production from Palmar Largo is a high quality oil and is transported by pipeline and truck to a nearby refinery. Prices are defined by a multi-year contract. Minor volumes of natural gas and liquids from Nacatimbay are also sold locally. All sales are denominated in pesos but refer to reference or base prices in US dollars. Our average oil price for 2005 was $37.80 per barrel and our average natural gas price was $1.50 per thousand cubic foot.

Argentina has one of the largest integrated gas transmission systems in South America, with a relatively mature gas market. The first Argentine gas exports began in January 1997, and increased steadily through the rest of the 1990’s with the implementation of several other export pipelines. Domestic gas sales contracts were converted to pesos in January 2002 and had a significant effect on the economics of gas based assets. At the time, on many gas fields, operational expenditure exceeded revenues. As a result, investment on gas assets was cut drastically during 2002, and this trend continued in 2003. In 2004, Argentina suffered a deficit in domestic gas production, brought on by a combination of high demand and the limited level of investment in the country's gas assets and infrastructure in the post-crisis years. As a result of regulated gas price increases implemented by the Argentine government in 2004, gas development activity picked up during the year. Sales are expected to continue to increase gradually over the next few years. On March 25, 2004, the Argentine government introduced Resolution 265 that decreed gas exports must be restricted to give preference to domestic demand. The move was in response to a deficit in domestic gas production (brought on by an increase in demand). All of our gas is sold in the domestic Argentina market. We sell 50% directly to Refinor, an Argentine refinery, and 50% to Energy Consulting S.A., a local gas marketing company.

The oil and gas industry is highly competitive. We face competition from both local and international companies in acquiring properties, contracting for drilling equipment and securing trained personnel. Many of these competitors have financial and technical resources that exceed those of Gran Tierra, and we believe that such companies have a competitive advantage in these areas.

Regulation

The oil and gas industry in Argentina (and in South America) is heavily regulated. Rights and obligations with regard to exploration and production activities are explicit for each project; economics are governed by a royalty/tax regime. Various government approvals are required for property acquisitions and transfers, including, but not limited to, meeting financial and technical qualification criteria in order to be certified as an oil and gas company in the country. Oil and gas concessions are typically granted for fixed terms with opportunity for extension. Concession rights for our principal property - Palmar Largo - extend to the year 2017 and may be extended an additional ten years. The Nacatimbay concession currently expires in 2022 and the Ipaguazu concession in 2016; each is extendible for ten years.

Oil and gas prices are effectively controlled and are established by decree or according to specified formulae. A tax on oil exports sets an effective cap on prices within the country; gas prices are set by statute and reflected in contract terms.

The pace of bureaucracy in Argentina tends to be slow in comparison to North American standards and legal structures are less mature, but the overall business environment is supportive of foreign investment and we believe it is continuing to improve. Changes in regulations or shifts in political attitudes are beyond our control and may adversely impact our business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes and environmental legislation.

Future Activity

We plan to continue assessing production and exploration opportunities that can provide a base for growth. We are currently assessing opportunities in Argentina, Colombia and elsewhere in South America which, if consummated, could substantially increase reserves and production.

Environmental Compliance

Our activities are subject to existing laws and regulations governing environmental quality and pollution control, in Canada and in the foreign countries where we maintain operations. Our activities with respect to exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing gas and other products, are subject to stringent environmental regulation by provincial and federal authorities in Argentina. Costs related to environmental compliance totalled $6,559 in 2005. Risks are inherent in oil and gas exploration and production operations, and we can give no assurance that significant costs and liabilities will not be incurred in connection with environmental compliance issues. We cannot predict what effect future regulation or legislation, enforcement policies issued, and claims for damages to property, employees, other persons and the environment resulting from our operations could have.

Employees

At February 28, 2006, we had twelve full-time employees - six located in the Calgary corporate office and six in Buenos Aires. None of our employees are represented by labor unions, and we consider our employee relations to be good.

Corporate Information

Goldstrike Inc., now known as Gran Tierra Energy Inc., was incorporated under the laws of the State of Nevada on June 6, 2003. Our principal executive offices are located at 300, 611 - 10th Avenue S.W., Calgary, Alberta, Canada. The telephone number at our principal executive office is (403) 265-3221.

Additional Information

We are required to comply with the informational requirements of the Exchange Act, and accordingly, we file annual reports, quarterly reports, current reports, proxy statements and other information with the SEC. You may read or obtain a copy of these reports at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room and their copy charges by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports, proxy information statements and other information regarding registrants that file electronically with the SEC. The address of the website is http://www.sec.gov.

Item 2. Description of Property.

Offices

We currently lease office space in Calgary, Alberta and in Buenos Aires, Argentina, and maintain temporary office space in Quito, Ecuador. The Calgary lease covers a term of five years (beginning February, 2006), with monthly lease payments of $6,824. Our Buenos Aires lease is for two years beginning March 2006, with monthly lease payments of $2,000 and our Quito lease is on a month-to-month basis. The condition of properties is excellent.

Oil and Gas Properties

Palmar Largo

The Palmar Largo joint venture encompasses several producing oil fields in the Noroeste Basin of Argentina. Approximately 39 million barrels of oil (gross before royalties) have been recovered from the area since 1984. A total of 16 (gross) wells are currently producing. Gran Tierra's share of remaining proved reserves at December 31, 2005 is 580,976 barrels (net after 12% royalties) according to an independent reserve assessment.

Our share of production at Palmar Largo averaged 293 barrels per day (net after 12% royalties) over the September 1 to December 31, 2005 period. Sales for the period were significantly less than production and inventories increased as a result, as oil deliveries were disrupted in November and December due to heavy rainfall in the region, which made roads impassable for tanker trucks. Sales averaged 206 barrels per day and oil inventory reached approximately 14,000 barrels at year-end. The average sales price for Palmar Largo oil was $37.80 per barrel. The average operating cost was $10.11 per barrel of oil equivalent (on a net production basis).

The joint venture partners at Palmar Largo conducted a 3-D seismic survey over a portion of the area in 2003 and identified several exploration prospects and leads. One exploration well was drilled in late-2005 but did not indicate commercial quantities of oil. A portion of the drilling costs for this well was factored into the purchase price for Palmar Largo. A twin of an existing well was also recently drilled and completed. The Ramon Lista-1001 well commenced drilling in September 2005 and reached its target depth in late-December. Production from the well was initiated in early February 2006 at 299 barrels per day (gross after 12% royalty) or 42 barrels per day net to Gran Tierra (after 12% royalty). No additional wells are planned for 2006.

Our participation at Palmar Largo provides us with a reliable cashflow stream and a base for expansion in the region and in the country.

Nacatimbay

Production from the Nacatimbay oil, gas and condensate field began in 1996. A single well is currently producing. Natural gas is sold into the adjacent pipeline grid at regulated prices and liquids are sold locally. Over the September 1 to December 31, 2005 period, natural gas sales averaged 494 thousand cubic feet per day (net after 12% royalty). Total liquids production averaged 5 barrels per day for the period (net after 12% royalty). Average sales prices at Nacatimbay were $37.58 per barrel of condensate and $1.50 per thousand cubic feet of natural gas. The average operating cost was $10.11 per barrel of oil equivalent (on a net production basis, natural gas conversion 20 to 1). Reserves associated with current activities at Nacatimbay are limited according to an independent reserve assessment, with shut-in of the field expected to occur in 2006.

Gran Tierra will be assessing the production potential of the block in 2006, including opportunities to extend production from the existing well.

Ipaguazu

The Ipaguazu oil and gas field was discovered in 1981 and produced approximately 100 thousand barrels of oil and 400 million cubic feet of natural gas until 2003. No producing activities are carried out in the field at this time. The Ipaguazu block has not been fully appraised, leaving scope for both reactivation and exploration in the future.

Reserves Summary

Estimated Reserves (1) Net to Gran Tierra, After 12% Royalty, at December 31, 2005			
	Oil (thousand barrels)	**Natural Gas** (million cubic feet)	**Liquids** (thousand barrels)
	Palmar Largo	Nacatimbay	Nacatimbay
Proved Developed	462	24.5	1.72
Proved Undeveloped	119	-	-
Total Proved	581	24.5	1.72

(1) Reserves certified by Gaffney, Cline and Associates, as of February 2006.

Gran Tierra had no reserves at December 31, 2004.

Proved reserves for Palmar Largo do not include the full impact of the Ramon Lista-1001 well, which commenced production in early-2006. Royalty is levied at 12% of gross production revenue less transport costs.

Our acquisition of Palmar Largo was based on an estimate of proved reserves at June 1, 2005 of 620,400 barrels net to Gran Tierra. Year-end proved reserves of 580,976 barrels plus June 1 through December 31 production of 63,360 barrels translates to a proved reserves balance of 644,336 barrels at June 1, representing a variance of less than 4% for actual reserves versus estimated reserves at June 1, 2005.

Production Summary

Production Net to Gran Tierra, After 12% Royalty, September 1 - December 31, 2005				
Oil - Palmar Largo		**Natural Gas - Nacatimbay**		**Liquids Nacatimbay**
(barrels per day)	(average price)	(thousand cubic feet per day)	(average price)	(barrels per day)
293	$37.80/barrel	494	$1.50/thousand cubic feet	5

Gran Tierra had no production in 2004.

Productive Wells

Productive Wells Gran Tierra, December 31, 2005						
(Number of wells)	**Oil**		**Natural Gas**		**Total**	
	Gross (1)	**Net (2)**	**Gross (1)**	**Net (2)**	**Gross (1)**	**Net (2)**
Palmar Largo	16	2.2	-	-	16	2.2
Nacatimbay	-	-	1	0.5	1	0.5
Ipaguazu	-	-	-	-	-	-
Total	16	2.2	1	0.5	17	2.7

(1) Represents the total number of wells at each property.
(2) Represents our interest in the total number of wells at each property.

Acreage

Acreage Gran Tierra, December 31, 2005						
(Acres)	**Developed**		**Undeveloped**		**Total**	
	Gross (1)	**Net (2)**	**Gross (1)**	**Net (2)**	**Gross (1)**	**Net (2)**
Palmar Largo	301,700	42,238	-	-	301,700	42,238
Nacatimbay	36,600	18,300	-	-	36,600	18,300
Ipaguazu	43,200	21,600	-	-	43,200	21,600
Total	381,500	82,138	-	-	381,500	82,138

(1) Represents the total acreage at each property.
(2) Represents our interest in the total acreage at each property.

Drilling Activity

Drilling Activity Gran Tierra, 2005						
(Number of wells)	**Productive**		**Dry**		**Total**	
	Gross (1)	**Net (2)**	**Gross (1)**	**Net (2)**	**Gross (1)**	**Net (2)**
Exploration	-	-	1	0.14	1	0.14
Development	1	0.14	-	-	1	0.14
Total	1	0.14	1	0.14	2	0.28

(1) Represents the total number of wells at which there is drilling activity.
(2) Represents our interest in the total number of wells at which there is drilling activity.

Present Activities

We are not currently engaged in any drilling activity or extraordinary work programs in our areas of operations.

Item 3. Legal Proceedings.

From time to time we may become a party to litigation or other legal proceedings that are part of the ordinary course of our business, involving routine litigation that is incidental to our business. Currently, no legal claims or proceedings are pending against us (i) which claim damages in excess of 10% of our current assets, (ii) which involve bankruptcy, receivership or similar proceedings, (iii) which involve federal, state or local environmental laws, or (iv) which involve any of our directors, officers, affiliates, or stockholders as a party with a material interest adverse to us. To our knowledge, no proceeding against us is currently contemplated by any governmental authority.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

Our common stock was first cleared for quotation on the NASD OTC bulletin board on November 11, 2005 and has been trading since that time.

As of March 7, 2006, there were approximately 172 holders of record of shares of our common stock (including holders of exchangeable shares).

On March 7, 2006, the last reported sales price of our shares on the OTC bulletin board was $4.24. During the fourth quarter of 2005, the high sales price of our common stock was $2.83 and the low sales price was $1.01. During the first quarter of 2006 through March 7, 2006, the high sales price of our common stock was $6.06 and the low sales price was $2.94.

As of the date hereof, there are 44,547,612 shares of common stock issued and outstanding, which number includes shares of common stock issuable upon exchange of the exchangeable shares of Goldstrike Exchange Co. issued to former holders of Gran Tierra Canada's common stock.

The approximate number of record security holders of our common stock and the exchangeable shares as of March 7, 2006, is as follows:

Title	Number of security holders
Common Stock	Approximately 127 holders of record
Exchangeable Shares	Approximately 45

Recent Sales of Unregistered Securities

There have been no sales of unregistered securities within the last three years which would be required to be disclosed pursuant to Item 701 of Regulation S-B, except for the following descriptions of our securities sold in the private placement transactions:

On September 1, 2005, October 7, 2005 and October 27, 2005, Goldstrike completed closings on private offerings to accredited investors. In these offerings, Goldstrike sold 12,941,884 shares of common stock and warrants to acquire another 6,470,950 shares of common stock for consideration of $10,353,507. The warrants are exercisable during the period ending five years from the date of grant at $0.625 per half share. The proceeds from the sale of Goldstrike's common stock and warrants were used to fund the loan from Goldstrike to Gran Tierra Canada.

Upon the October 7, 2005 closing, Goldstrike increased its loan commitment to Gran Tierra Canada from $8,337,916 to $9,353,492, and Gran Tierra Canada borrowed an additional $800,000 from Goldstrike. Upon the October 27, 2005 closing, Goldstrike increased its loan commitment to Gran Tierra Canada from $9,313,492 to $10,313,492. Gran Tierra Canada borrowed an additional $700,000 under the Goldstrike loan commitment.

Following the Closing Date, on December 14, 2005, we completed a sale of unregistered shares of our common stock in a second closing of the second offering to accredited investors. In this second closing of the second private offering, we sold 1,343,222 shares of our common stock and warrants to acquire 671,611 shares of common stock for consideration of $1,074,578. The warrants are exercisable during the period ending five years from the date of grant at $0.625 per half share.

-12-

The private offerings and related transactions discussed above are exempt from registration under Section 4(2) of the Securities Act or Rule 506 of Regulation D, promulgated by the SEC. In the private offerings, no general solicitation was made by us or any person acting on our behalf; the securities were sold subject to transfer restrictions, and the certificates for the shares and warrants contained an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or an exemption therefrom.

Equity Compensation Plan

Securities authorized for issuance under equity compensation plans as of December 31, 2005 are as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,940,000	$1.12	60,000
Equity compensation plans not approved by security holders	--	--	--
Total	1,940,000	--	60,000

Equity compensation plans approved by our stockholders include our 2005 Equity Incentive Plan, under which our board of directors is authorized to issue options or other rights to acquire up to 2,000,000 shares of our common stock. The shares of common stock underlying awards granted under the 2005 Equity Compensation Plan include options to acquire 1,600,000 shares of common stock at an exercise price of $0.80 per share, granted on November 10, 2005 and options to acquire 340,000 shares of common stock at an exercise price of $2.62 per share, granted on December 15, 2005. The compensation committee will determine the period of time during which an option may be exercised, except that no option may be exercised more than ten years after the date of grant.

On February 2, 2006, we closed our third private offering. We issued warrants to purchase up to 381,250 shares of common stock, exercisable through February 2, 2011, at $0.625 per half share. Such issuances are not reflected in the table above as they took place after December 31, 2005.

Dividend Policy

We have never declared or paid dividends on the shares of common stock and we intend to retain future earnings, if any, to support the development of the business and therefore do not anticipate paying cash dividends for the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs.

Item 6. Management's Discussion and Analysis.

The following discussion should be read in conjunction with the attached financial statements and notes thereto. Except for the historical information contained herein, the matters discussed below are forward-looking statements that involve certain risks and uncertainties, including, among others, the risks and uncertainties discussed below.

Overview

Gran Tierra is an independent international energy company involved in oil and natural gas exploration and exploitation. We plan to continually increase our oil and natural gas reserves through a balanced strategy of exploration drilling, development and acquisitions in South America. Initial countries of interest are Argentina, Colombia and Peru.

Gran Tierra took its current form on November 10, 2005 when the former Gran Tierra Energy Inc, a privately held corporation in Alberta ("Gran Tierra Canada"), was acquired by an indirect subsidiary of Goldstrike Inc, a Nevada corporation, which was publicly traded on the NASD Over-the-Counter Bulletin Board. Goldstrike adopted the assets, management, business operations, business plan and name of Gran Tierra Canada. The predecessor company in the transaction is the former Gran Tierra Canada; the financials of the former Goldstrike were eliminated at consolidation. This transaction is accounted for as a reverse takeover of Goldstrike Inc. by Gran Tierra Canada.

We currently hold a non-operating (14%) interest in joint ventures involving several producing fields in the Noroeste basin of Argentina (Palmar Largo), as well as a 50% interest in two minor properties, one producing natural gas and associated liquids from a single well (Nacatimbay) and one non-producing property (Ipaguazu). The oil we produce in Argentina is light oil without high quantities of impurities. The gas we produce contains a small amount of CO_2, but not enough to impact production or selling price. We acquired these interests on September 1, 2005. Before the acquisition, we had no oil and gas interests or properties. The acquisition was funded through a series of private placements, initially advanced to Gran Tierra Canada as a loan from the former Goldstrike.

Our ability to continue as a going concern is dependent upon obtaining the necessary financing to acquire oil and natural gas interests and generate profitable operations from our oil and natural gas interests in the future. We incurred a net loss of $2.2 million for the period ended December 31, 2005, negative cash flows from operations of $1.9 million, and, as at December 31, 2005, had an accumulated deficit of $2.2 million. We expect to incur substantial expenditures to further our capital investment programs and our cash flow from operating activities may not be sufficient to satisfy our current obligations and meet our capital investment objectives. Those circumstances raise substantial doubt about our ability to continue as a going concern. Our financial statements as at and for the period ended December 31, 2005 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

To address our ability to continue as a going concern, we initially intend to rely primarily on our current cash position. We also intend to raise additional capital through the sale and issuance of common shares and to arrange a debt facility with one or more banks. We also plan to expand our portfolio of production, development, step-out and exploration opportunities using additional capital raised and cash provided by future operating activities.

If those efforts are unsuccessful, we will be required to curtail future plans, reduce expenses and rely upon existing properties for revenue. We may be required liquidate our assets and wind-up our operations.

Net loss for 2005 was $2,219,680, equivalent to a loss of $0.16 per share. These calculations are based on basic weighted average shares outstanding of 13,538,149. Gross revenue, representing four months of oil and gas operations, totaled $1,244,589 and was negatively impacted by weather conditions in Northern Argentina, which reduced deliveries in November and December. Royalties for the year totaled $185,292 and net revenues were $1,059,297. Expenses totaled $3,308,205, reflecting costs relating to the November 10, 2005 share exchange, four months of operating costs, and twelve months of general and administrative expenses. Cash used by operations was $1,876,638. Capital expenditures totaled $8,775,327 and included the initial acquisition costs for the Argentina assets and costs associated with drilling activities. Financing activities contributed $13,206,116 to Gran Tierra.

Plan of Operations

During 2006, we plan to participate in our current joint venture activities, and no drilling is planned for the year. A total of three well workovers is planned at Palmar Largo, to be funded from internal cashflow. We will be conducting a review of production enhancement and exploration opportunities at Nacatimbay and Ipaguazu. In addition to current projects, we will pursue new ventures that may add production, development and exploration opportunities in South America, in areas of current activity and in new regions/countries. There is no assurance additional opportunities will be available, or if we participate in additional opportunities that those opportunities will be successful.

Based on projected production, prices and costs, we believe that our current cash position and cash flow from operations is sufficient to sustain current activity through 2006. New business opportunities will require equity and/or debt financing for acquisitions and/or future work programs.

We have not entered into any commodity derivative arrangements or hedging transactions. Although we have no current plans to do so, we may enter in to some swap and/or hedging arrangements in conjunction with future financings. We have no off-balance sheet arrangements.

Results of Operations for 2005

Revenues

Production after royalties of 12% for the year averaged approximately 298 barrels of liquids per day; 293 barrels per day of oil from Palmar Largo and 5 barrels per day of condensate from Nacatimbay. Oil sales at Palmar Largo were reduced to an average of 206 barrels per day due to severe weather conditions in Northern Argentina, as extreme rainfall and poor road conditions curtailed tanker truck traffic through November and December. Oil inventory increased to 13,948 barrels by December 31, 2005 as a result. Natural gas sales at Nacatimbay averaged 494 thousand cubic feet per day, after 12% royalty.

Since the date of acquisition, on September 1, 2005, gross revenue for 2005 was $1,115,954 at Palmar Largo and $128,635 at Nacatimbay, totaling $1,244,589 for the year. Average sales price for Palmar Largo oil was $37.80 per barrel. Average sales prices at Nacatimbay were $37.58 per barrel of condensate and $1.50 per thousand cubic feet of natural gas. Oil and natural gas prices are effectively regulated in Argentina.

Net revenue for the year was $1,059,297, reflecting an average royalty rate of 12% of production revenue minus transportation and storage costs.

Operating Expenses

Operating expenses totaled $395,287 for the year, representing four months of operations in Argentina. This equates to an average operating cost of $8.90 per barrel of oil equivalent (natural gas conversion 20 to 1).

Depreciation, depletion and amortization for the period was $462,119. The majority of this cost represents the depletion of the acquisition cost for the Argentina properties.

Remaining operating expenses for the year were general and administrative in nature, totaling $2,482,070. Of this amount, legal costs, accounting expenses and consulting costs were $1,482,824. The majority of these costs were associated with the share exchange on November 10, 2005 and related activities. Salaries and benefits were $594,585 and travel costs were $168,134. Office, insurance and other expenses totaled $236,527.

Foreign exchange gain was $31,271 for the period.

Net Income (Loss) Available to Common Shares

Net loss for 2005 was $2,219,680, equivalent to a loss of $0.16/share. These results reflect four months of operating activity, twelve months of business activity and significant costs relating to the November 10, 2005 share exchange.

Liquidity and Capital Resources

Liquidity

Gross capital expenditures in 2005 were $8,775,327, predominantly for the acquisition cost of the Argentina properties. The purchase price for the Argentina acquisition was $7,032,714 plus post-closing adjustments of $708,955. The majority of remaining capital expenditures relates to Gran Tierra’s share of the cost of drilling one well at Palmar Largo.

During 2005, we funded the majority of our capital expenditures from funds received through three private placements of equity in Gran Tierra. Total equity from common shares was $13,206,116. A total of 14,285,106 units consisting of one common share at $0.80 per share plus one warrant to purchase one half share at $0.625 per half share were issued through private placements for gross proceeds of $11,428,084. The funds were used to acquire the Argentina properties and to provide working capital for Gran Tierra. Our cash balance at year-end was $2,221,456 and net working capital was $2,656,504.

At December 31, 2005 we had cash and cash equivalents of $2,221,456. Our net working capital was $2,656,504. We completed several private placements in 2005, that resulted in financing activities providing $13,206,116. Operating activities used $1,876,638 during 2005, and investing activities used $9,108,022. Cash used in investing activities was primarily for acquisition of our properties in Argentina. We have $400,427 in restricted cash that is currently being held in escrow with our partners in the Palmar Largo joint venture, in order to secure future cash calls relating to the joint venture which include both operating expenses and capital expenditures. The escrow account is scheduled to be terminated in October, 2006 and the cash balance is to be released to us at that time. Although the escrow may be terminated, we will continue to be subject to cash calls relating to the joint venture and the term of the escrow account may be extended if we become delinquent in payment of cash calls prior to October. Cash calls for 2006 are expected to total $2.1 million and are expected to be covered by revenues from Palmar Largo.

Cash used by operating of $1,876,638 for 2005 was funded primarily through financing activities, namely the sale of equity securities noted above. The primary reasons for our operating deficit were large expenses related to our financings and share exchange with Goldstrike Inc., and having revenues from operations for only four months of the year (from September 1).

Current operations for 2006 are expected to be funded with existing cash balances and cash flows from production. At December 31, 2005, our cash balance was approximately $2.2 million dollars. The current cash on hand is expected to last until the end of 2006. Net revenues are expected to total $3.5 million for 2006. Expenditures for the year are expected to total $5.7 million, including capital and other operating expenditures of approximately $2.9 million and general and administrative expenses of approximately $2.8 million dollars, including both Calgary and Argentina operations.

With our existing properties and based on projected production, prices and costs, we expect current cash balances and cash flow from operations to satisfy cash demands through the end of 2006. If we are successful in new business development activites, we may require equity and/or debt financing to fund acquisitions as well as associated capital programs. We have office lease commitments in Calgary and Argentina of approximately $6,824 and $2,000 per month respectively.

Our current liabilities consist of cash calls payable to partners, which are paid on a weekly basis and general operating costs. We currently do not carry any debt facilities with banks or other financial institutions.

Future growth and acquisitions will depend on our ability to raise additional funds through equity and/or debt markets. We are currently involved in financing initiatives that would support recent acquisition initiatives, which will also bring additional production and cashflow into Gran Tierra. Our initiatives to raise debt or equity financing to fund capital expenditures or other acquisition and development opportunities 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 either directly or indirectly through convertible instruments for raising capital could 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 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 pledging some or all of our assets.

Off-Balance Sheet Arrangements

For the fiscal year ended December 31, 2005, we did not have any off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B, promulgated by the SEC.

Critical Accounting Estimates

Use of Estimates

The preparation of financial statements under generally accepted accounting principles ("GAAP") in the United States requires management to make estimates 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. Actual results could differ from those estimates.

Oil and Gas Accounting—Reserves Determination

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geo-physical, engineering and economic data.

To estimate the economically recoverable oil and natural gas reserves and related future net cash flows, we incorporate many factors and assumptions including:

- § expected reservoir characteristics based on geological, geophysical and engineering assessments;
- § future production rates based on historical performance and expected future operating and investment activities;
- § quality differentials;
- § assumed effects of regulation by governmental agencies; and
- § future development and operating costs.

We believe these factors and assumptions are reasonable based on the information available to us at the time we prepare our estimates. However, these estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change.

Management is responsible for estimating the quantities of proved oil and natural gas reserves and for preparing related disclosures. Estimates and related disclosures are prepared in accordance with SEC requirements and generally accepted industry practices in the US as promulgated by the Society of Petroleum Engineers.

Reserve estimates, including the standardized measure of discounted future net cash flow and changes therein, are prepared at least annually by independent qualified reserves consultants.

The board of directors oversees the annual review of our oil and gas reserves and related disclosures. The board meets with management periodically to review the reserves process, results and related disclosures and appoints and meets with the independent reserves consultants to review the scope of their work, whether they have had access to sufficient information, the nature and satisfactory resolution of any material differences of opinion, and in the case of the independent reserves consultants, their independence.

Reserve estimates are critical to many of our accounting estimates, including:

- § Determining whether or not an exploratory well has found economically producible reserves.

- § Calculating our unit-of-production depletion rates. Both proved and proved developed reserves estimates are used to determine rates that are applied to each unit-of-production in calculating our depletion expense. Proved reserves are used where a property is acquired and proved developed reserves are used where a property is drilled and developed.

- § Assessing, when necessary, our oil and gas assets for impairment. Estimated future cash flows are determined using proved reserves. The critical estimates used to assess impairment, including the impact of changes in reserves estimates, are discussed below.

Oil and Gas Accounting—Impairment

We evaluate our oil and gas properties for impairment on a quarterly basis. We assess estimated discounted future cash flows to determine if properties are impaired on a cost center basis. If the 10% discounted future cash flows for a cost center are less than the carrying amount, the cost center is impaired and written down to its fair value.

We assessed our oil and gas properties for impairment at the end of 2005 and found no impairments were required based on our assumptions.

Cash flow estimates for our impairment assessments require assumptions about reserves.

It is difficult to determine and assess the impact of a decrease in our proved reserves on our impairment tests. The relationship between the reserves estimate and the estimated discounted cash flows is complex because of the necessary assumptions that need to be made regarding future production rates, future prices and future costs. Under full cost accounting, a ceiling test is performed to ensure that unamortized capitalized costs in each cost center do not exceed their fair value. An impairment loss is recognized in net earnings when the carrying amount of a cost center is not recoverable and the carrying amount of the cost center exceeds its fair value. A cost center is defined as a country. Capitalized costs, less accumulated depreciation (carrying value) are limited to the sum of: the present value of estimated future net revenues from proved oil and gas reserves, less future development costs and taxes using a discount factor of 10%; plus the cost of properties not being amortized; plus the lower of cost or estimated fair value of unproven properties included in the costs being amortized; less income tax effects related to the differences between the book and tax basis of the properties. If unamortized capital costs within a cost center exceed the cost center ceiling, the excess shall be charged to expense and separately disclosed during the period in which the excess occurs. As a result, we are unable to provide a reasonable sensitivity analysis of the impact that a reserves estimate decrease would have on our assessment of impairment.

Asset Retirement Obligations

We are required to remove or remedy the effect of our activities on the environment at our present and former operating sites by dismantling and removing production facilities and remediating any damage caused. Estimating our future asset retirement obligations requires us to make estimates and judgments with respect to activities that will occur many years into the future. In addition, the ultimate financial impact of environmental laws and regulations is not always clearly known and cannot be reasonably estimated as standards evolve in the countries in which we operate.

We record asset retirement obligations in our consolidated financial statements by discounting the present value of the estimated retirement obligations associated with our oil and gas wells and facilities. In arriving at amounts recorded, numerous assumptions and judgments are made with respect to ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement and expected changes in legal, regulatory, environmental and political environments. The asset retirement obligations we have recorded result in an increase to the carrying cost of our property, plant and equipment. The obligations are accreted with the passage of time. A change in any one of our assumptions could impact our asset retirement obligations, our property, plant and equipment and our net income.

It is difficult to determine the impact of a change in any one of our assumptions. As a result, we are unable to provide a reasonable sensitivity analysis of the impact a change in our assumptions would have on our financial results. We are confident, however, that our assumptions are reasonable.

Deferred Income Taxes

We follow the liability method of accounting for income taxes whereby future income tax assets and liabilities are recognized based on temporary differences in reported amounts for financial statement and tax purposes. We carry on business in several countries and as a result, we are subject to income taxes in numerous jurisdictions. The determination of our income tax provision is inherently complex and we are required to interpret continually changing regulations and make certain judgments. While income tax filings are subject to audits and reassessments, we believe we have made adequate provision for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

-18-

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement 151, *Inventory Costs*. This statement amends Accounting Research Bulletin ("ARB") 43 to clarify that:

§ abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) should be recognized as current-period charges; and

§ the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities is required.

The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of this statement will have any material impact on our results of operations or financial position.

In December 2004, the FASB issued Statement 153, *Exchanges of Nonmonetary Assets*, an amendment of Accounting Principles Board ("APB") Opinion 29, *Accounting for Nonmonetary Transactions*. This amendment eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under Statement 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance test and fair value is determinable, the transaction must be accounted for at fair value resulting in the recognition of any gain or loss. This statement is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. We do not expect the adoption of this state-ment will have any material impact on our results of operations or financial position.

In March 2005, the FASB issued Financial Interpretation 47, *Accounting for Conditional Asset Retirement Obligations* ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of this statement has not had a material impact on our results of operations or financial position.

In June 2005, the FASB issued Statement 154, *Accounting Changes and Error Corrections*, which replaces APB Opinion 20 and FASB Statement 3. Statement 154 changes the requirements for the accounting and reporting of a change in accounting principle. Opinion 20 previously required that most voluntary changes in accounting principles be recognized by including the cumulative effect of the new accounting principle in net income of the period of the change. In the absence of explicit transition provisions provided for in new or existing accounting pronouncements, Statement 154 now requires retrospective application of changes in accounting principle to prior period financial statements, unless it is impracticable to do so. The Statement is effective for fiscal years beginning after December 15, 2005. We do not expect the adoption of this statement will have a material impact on our results of operations or financial position.

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

Item 7. Financial Statements.

The following financial information is included on the pages indicated:

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of
Gran Tierra Energy Inc.

We have audited the consolidated balance sheet of Gran Tierra Energy Inc. as at December 31, 2005 and the consolidated statements of operations, cash flows and shareholders' equity for the period from incorporation on January 26, 2005 to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Gran Tierra Energy Inc. as at December 31, 2005 and the results of its operations and its cash flows for the period from incorporation on January 26, 2005 to December 31, 2005 in accordance with accounting principles generally accepted in the United States of America.

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion.

Calgary, Alberta, Canada
March 3, 2006

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when the consolidated financial statements are affected by conditions and events that cast a substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the board of directors and shareholders of Gran Tierra Energy Inc., dated March 3, 2006, is expressed in accordance with Canadian reporting standards, which do not require a reference to such conditions and events in the auditors' report when these are adequately disclosed in the financial statements.

Calgary, Alberta, Canada
March 3, 2006

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants

GRAN TIERRA ENERGY INC.

Consolidated Statement of Operations
Period from Incorporation on January 26, 2005 to December 31, 2005
(Stated in US dollars)

	$
REVENUES	1,059,297
EXPENSES	
Operating	395,287
General and administrative	2,482,070
Depletion, depreciation and accretion	462,119
Foreign exchange gain	(31,271)
	3,308,205
LOSS BEFORE INCOME TAXES	(2,248,908)
INCOME TAXES	29,228
NET LOSS	(2,219,680)
BASIC AND DILUTED NET LOSS PER SHARE	(0.16)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	13,538,149

(See notes to the consolidated financial statements)

22

GRAN TIERRA ENERGY INC.

Consolidated Balance Sheet
December 31, 2005
(Stated in US dollars)

	$
ASSETS	
CURRENT	
Cash	2,221,456
Restricted cash	400,427
Accounts receivable	808,960
Prepaid expenses and deposits	42,701
Inventory	447,012
	3,920,556
Taxes receivable	108,139