

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, 2022

or

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

For the transition period from _____ to _____

Commission file number **001-34018**

GRAN TIERRA ENERGY INC.

(Exact name of registrant as specified in its charter)

Delaware

98-0479924

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

500 Centre Street S.E.

Calgary, Alberta Canada T2G 1A6

(Address of principal executive offices, including zip code)

(403) 265-3221

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.001 per share | GTE | NYSE American |
| | | Toronto Stock Exchange |
| | | London Stock Exchange |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

On August 5, 2022, 368,871,685 shares of the registrant’s Common Stock, \$0.001 par value, were issued.

Gran Tierra Energy Inc.
Quarterly Report on Form 10-Q
Quarterly Period Ended June 30, 2022
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CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our financial position, estimated quantities and net present values of reserves, business strategy, plans and objectives of our management for future operations, covenant compliance, capital spending plans and benefits of the changes in our capital program or expenditures, our liquidity, the impacts of the coronavirus (COVID-19) pandemic and those statements preceded by, followed by or that otherwise include the words "believe," "expect," "anticipate," "intend," "estimate," "project," "target," "goal," "plan," "budget," "objective," "could," "should," or similar expressions 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, our operations are located in South America and unexpected problems can arise due to guerilla activity, strikes, local blockades or protests; technical difficulties and operational difficulties may arise which impact the production, transport or sale of our products; other disruptions to local operations; global health events (including the ongoing COVID-19 pandemic); global and regional changes in the demand, supply, prices, differentials or other market conditions affecting oil and gas, including inflation and changes resulting from a global health crisis, the Russian invasion of Ukraine, or from the imposition or lifting of crude oil production quotas or other actions that might be imposed by OPEC and other producing countries and the resulting company or third-party actions in response to such changes; changes in commodity prices, including volatility or a decline in these prices relative to historical or future expected levels; the risk that current global economic and credit conditions may impact oil prices and oil consumption more than we currently predicts, which could cause further modification of our strategy and capital spending program; prices and markets for oil and natural gas are unpredictable and volatile; the effect of hedges; the accuracy of productive capacity of any particular field; geographic, political and weather conditions can impact the production, transport or sale of our products; our ability to execute its business plan and realize expected benefits from current initiatives; the risk that unexpected delays and difficulties in developing currently owned properties may occur; the ability to replace reserves and production and develop and manage reserves on an economically viable basis; the accuracy of testing and production results and seismic data, pricing and cost estimates (including with respect to commodity pricing and exchange rates); the risk profile of planned exploration activities; the effects of drilling down-dip; the effects of waterflood and multi-stage fracture stimulation operations; the extent and effect of delivery disruptions, equipment performance and costs; actions by third parties; the timely receipt of regulatory or other required approvals for our operating activities; the failure of exploratory drilling to result in commercial wells; unexpected delays due to the limited availability of drilling equipment and personnel; volatility or declines in the trading price of our common stock or bonds; the risk that we do not receive the anticipated benefits of government programs, including government tax refunds; our ability to obtain a new credit agreement and comply with financial covenants in its credit agreement and indentures and make borrowings under any credit agreement; and those factors set out in Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q and Part I, Item 1A "Risk Factors" in our 2021 Annual Report on Form 10-K (the "2021 Annual Report on Form 10-K"), and in our other filings with the Securities and Exchange Commission ("SEC"). The unprecedented nature of the COVID-19 pandemic and volatility in the worldwide economy and oil and gas industry makes, including the unpredictable nature of the resurgence of cases, possible variants and governmental responses, it more difficult to predict the accuracy of forward-looking statements. The information included herein is given as of the filing date of this Quarterly Report on Form 10-Q with the SEC and, except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to or to withdraw, 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 |
| BOPD | barrels of oil per day |
| NAR | net after royalty |

Sales volumes represent production NAR adjusted for inventory changes. Our oil and gas reserves are reported as NAR. Our production is also reported NAR, except as otherwise specifically noted as "working interest production before royalties."

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, | |
|--|-----------------------------|--------------------|---------------------------|--------------------|
| | 2022 | 2021 | 2022 | 2021 |
| OIL SALES (Note 7) | \$ 205,785 | \$ 96,623 | \$ 380,354 | \$ 192,116 |
| EXPENSES | | | | |
| Operating | 39,494 | 26,247 | 74,429 | 56,918 |
| Transportation | 2,513 | 3,002 | 5,347 | 5,601 |
| Depletion, depreciation and accretion | 42,216 | 28,927 | 83,179 | 60,245 |
| General and administrative (Note 10) | 9,836 | 9,006 | 22,172 | 19,494 |
| Foreign exchange loss (gain) | 2,722 | 91 | (1,003) | 13,174 |
| Derivative instruments loss (Note 10) | 5,172 | 21,239 | 26,611 | 44,937 |
| Other financial instruments loss (Note 10) | — | 2,614 | — | 1,209 |
| Interest expense (Note 5) | 12,194 | 13,935 | 24,322 | 27,747 |
| | 114,147 | 105,061 | 235,057 | 229,325 |
| INCOME (LOSS) BEFORE INCOME TAXES | 91,638 | (8,438) | 145,297 | (37,209) |
| INCOME TAX EXPENSE | | | | |
| Current (Note 8) | 25,425 | (14) | 46,252 | (14) |
| Deferred (Note 8) | 13,241 | 9,203 | 31,954 | 17,854 |
| | 38,666 | 9,189 | 78,206 | 17,840 |
| NET AND COMPREHENSIVE INCOME (LOSS) | \$ 52,972 | \$ (17,627) | \$ 67,091 | \$ (55,049) |
| NET INCOME (LOSS) PER SHARE | | | | |
| BASIC AND DILUTED | \$ 0.14 | \$ (0.05) | \$ 0.18 | \$ (0.15) |
| WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC (Note 6) | 368,571,378 | 366,982,456 | 367,982,294 | 366,982,008 |
| WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED (Note 6) | 374,233,600 | 366,982,456 | 372,977,695 | 366,982,008 |

(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)

| | As at June 30, 2022 | As at December 31, 2021 |
|--|------------------------|----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 11) | \$ 108,558 | \$ 26,109 |
| Restricted cash and cash equivalents (Note 11) | 1,142 | 392 |
| Accounts receivable | 10,987 | 13,185 |
| Taxes receivable (Note 3) | 42 | 45,506 |
| Other current assets (Note 10) | 28,082 | 16,609 |
| Total Current Assets | 148,811 | 101,801 |
| Oil and Gas Properties | | |
| Proved | 920,918 | 859,580 |
| Unproved | 106,536 | 131,865 |
| Total Oil and Gas Properties | 1,027,454 | 991,445 |
| Other capital assets | 11,543 | 4,352 |
| Total Property, Plant and Equipment (Note 4) | 1,038,997 | 995,797 |
| Other Long-Term Assets | | |
| Deferred tax assets | 27,526 | 61,494 |
| Taxes receivable (Note 3) | 24,473 | 17,522 |
| Other long-term assets (Note 10) | 16,337 | 12,497 |
| Total Other Long-Term Assets | 68,336 | 91,513 |
| Total Assets | \$ 1,256,144 | \$ 1,189,111 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 163,881 | \$ 148,694 |
| Current portion of long-term debt (Note 5) | — | 66,987 |
| Derivatives (Note 10) | 7,230 | 2,976 |
| Taxes payable (Note 3) | 23,661 | 6,620 |
| Other (Note 6 and 10) | 15,937 | 2,710 |
| Total Current Liabilities | 210,709 | 227,987 |
| Long-Term Liabilities | | |
| Long-term debt (Notes 5 and 10) | 595,861 | 587,404 |
| Asset retirement obligation | 56,783 | 54,525 |
| Equity compensation award liability (Note 6 and 10) | 14,872 | 13,718 |
| Other long-term liabilities | 6,253 | 3,397 |
| Total Long-Term Liabilities | 673,769 | 659,044 |
| Contingencies (Note 9) | | |
| Shareholders' Equity | | |
| Common Stock (Note 6) (368,871,685 and 367,144,500 shares issued and outstanding of Common Stock, par value \$0.001 per share, as at June 30, 2022, and December 31, 2021, respectively) | 10,272 | 10,270 |
| Additional paid-in capital | 1,290,075 | 1,287,582 |
| Deficit | (928,681) | (995,772) |
| Total Shareholders' Equity | 371,666 | 302,080 |
| Total Liabilities and Shareholders' Equity | \$ 1,256,144 | \$ 1,189,111 |

(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, | |
|--|----------------------------------|------------------|
| | 2022 | 2021 |
| Operating Activities | | |
| Net Income (Loss) | \$ 67,091 | \$ (55,049) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depletion, depreciation and accretion | 83,179 | 60,245 |
| Deferred tax expense | 31,954 | 17,854 |
| Stock-based compensation expense (Note 6) | 6,546 | 5,544 |
| Amortization of debt issuance costs (Note 5) | 2,018 | 1,775 |
| Unrealized foreign exchange (gain) loss | (498) | 13,480 |
| Derivative instruments loss (Note 10) | 26,611 | 44,937 |
| Cash settlements on derivatives instruments | (26,392) | (37,709) |
| Other financial instruments gain (Note 10) | — | 1,209 |
| Cash settlement of asset retirement obligation | (242) | (248) |
| Non-cash lease expenses | 1,158 | 814 |
| Lease payments | (732) | (855) |
| Net change in assets and liabilities from operating activities (Note 11) | 56,329 | 27,157 |
| Net cash provided by operating activities | <u>247,022</u> | <u>79,154</u> |
| Investing Activities | | |
| Additions to property, plant and equipment | (106,682) | (74,811) |
| Proceeds on disposition of investment, net of transaction costs | — | 14,632 |
| Changes in non-cash investing working capital (Note 11) | 10,964 | 3,176 |
| Net cash used in investing activities | <u>(95,718)</u> | <u>(57,003)</u> |
| Financing Activities | | |
| Repayment of debt (Note 5) | (67,525) | (15,126) |
| Proceeds from issuance of shares of Common Stock, net of issuance costs | 2 | — |
| Proceeds from exercise of stock options | 1,283 | 8 |
| Lease payments | (1,261) | (513) |
| Net cash used in financing activities | <u>(67,501)</u> | <u>(15,631)</u> |
| Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents | (680) | (488) |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | 83,123 | 6,032 |
| Cash, cash equivalents and restricted cash and cash equivalents, beginning of period (Note 11) | 31,404 | 17,523 |
| Cash, cash equivalents and restricted cash and cash equivalents, end of period (Note 11) | <u>\$ 114,527</u> | <u>\$ 23,555</u> |

Supplemental cash flow disclosures (Note 11)

(See notes to the condensed consolidated financial statements)

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| Share Capital | | | | |
| Balance, beginning of period | \$ 10,272 | \$ 10,270 | \$ 10,270 | \$ 10,270 |
| Issuance of Common Stock (Note 6) | — | — | 2 | — |
| Balance, end of period | 10,272 | 10,270 | 10,272 | 10,270 |
| Additional Paid-in Capital | | | | |
| Balance, beginning of period | 1,289,162 | 1,285,597 | 1,287,582 | 1,285,018 |
| Exercise of stock options | 303 | 8 | 1,283 | 8 |
| Stock-based compensation (Note 6) | 610 | 630 | 1,210 | 1,209 |
| Balance, end of period | 1,290,075 | 1,286,235 | 1,290,075 | 1,286,235 |
| Deficit | | | | |
| Balance, beginning of period | (981,653) | (1,075,676) | (995,772) | (1,038,254) |
| Net income (loss) | 52,972 | (17,627) | 67,091 | (55,049) |
| Balance, end of period | (928,681) | (1,093,303) | (928,681) | (1,093,303) |
| Total Shareholders' Equity | \$ 371,666 | \$ 203,202 | \$ 371,666 | \$ 203,202 |

(See notes to the condensed consolidated financial statements)

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

1. Description of Business

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

2. Significant Accounting Policies

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

The note disclosure requirements of annual consolidated financial statements provide additional disclosures required for interim unaudited condensed consolidated financial statements. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements as at and for the year ended December 31, 2021, included in the Company’s 2021 Annual Report on Form 10-K and interim financial statements as at and for the period ending March 31, 2022, included on the Company’s Form 10-Q.

The Company’s significant accounting policies are described in Note 2 of the consolidated financial statements, which are included in the Company’s 2021 Annual Report on Form 10-K and are the same policies followed in these interim unaudited condensed consolidated financial statements. The Company has evaluated all subsequent events to the date these interim unaudited condensed consolidated financial statements were issued.

3. Taxes Receivable and Payable

The table below shows the break-down of taxes receivable and payable, which are comprised of value added tax (“VAT”) and income tax:

| (Thousands of U.S. Dollars) | As at June 30, 2022 | As at December 31, 2021 |
|--|--------------------------------|------------------------------------|
| Taxes Receivable | | |
| Current | | |
| VAT Receivable | \$ 42 | \$ 21,918 |
| Income Tax Receivable | — | 23,588 |
| | \$ 42 | \$ 45,506 |
| Long-Term | | |
| Income Tax Receivable | \$ 24,473 | \$ 17,522 |
| Taxes Payable | | |
| Current | | |
| VAT Payable | \$ 14,473 | \$ 6,620 |
| Income Tax Payable | 9,188 | — |
| | \$ 23,661 | \$ 6,620 |
| Total Taxes Receivable net of Taxes Payable | \$ 854 | \$ 56,408 |

The following table shows the movement of VAT and income tax receivables for the period identified below:

| (Thousands of U.S. Dollars) | VAT Receivable (Payable) | Income Tax Receivable | Total Net Taxes Receivable |
|---|-----------------------------|--------------------------|-------------------------------|
| Balance, as at December 31, 2021 | \$ 15,298 | \$ 41,110 | \$ 56,408 |
| Collected through direct government refunds | (265) | (99) | (364) |
| Collected through sales contracts | (86,092) | — | (86,092) |
| Taxes paid ⁽¹⁾ | 55,759 | 20,468 | 76,227 |
| Current tax expense | — | (46,252) | (46,252) |
| Foreign exchange loss | 869 | 58 | 927 |
| Balance, as at June 30, 2022 | \$ (14,431) | \$ 15,285 | \$ 854 |

⁽¹⁾VAT is paid on certain goods and services and collected on sales in Colombia at a rate of 19%

4. Property, Plant and Equipment

| (Thousands of U.S. Dollars) | As at June 30, 2022 | As at December 31, 2021 |
|---|------------------------|----------------------------|
| Oil and natural gas properties | | |
| Proved | \$ 4,444,894 | \$ 4,302,473 |
| Unproved | 106,536 | 131,865 |
| | 4,551,430 | 4,434,338 |
| Other ⁽¹⁾ | 43,830 | 34,943 |
| | 4,595,260 | 4,469,281 |
| Accumulated depletion and depreciation and impairment | (3,556,263) | (3,473,484) |
| | \$ 1,038,997 | \$ 995,797 |

⁽¹⁾ The “other” category includes right-of-use assets for operating and finance leases of \$22.2 million, which had a net book value of \$10.7 million as at June 30, 2022 (December 31, 2021 - \$13.9 million, which had a net book value of \$3.9 million).

For the three and six months ended June 30, 2022, and 2021, the Company had no ceiling test impairment losses. The Company used an average Brent price of \$87.88 and \$52.74 per bbl, for the purposes of the June 30, 2022 and 2021 ceiling test calculations, respectively.

5. Debt and Debt Issuance Costs

The Company's debt at June 30, 2022, and December 31, 2021, was as follows:

| (Thousands of U.S. Dollars) | As at June 30, 2022 | As at December 31, 2021 |
|---|------------------------|----------------------------|
| Current | | |
| Revolving credit facility | \$ — | \$ 67,500 |
| Unamortized debt issuance costs | — | (513) |
| | <u>\$ —</u> | <u>\$ 66,987</u> |
| Long-Term | | |
| 6.25% Senior Notes, due February 2025 | \$ 300,000 | \$ 300,000 |
| 7.75% Senior Notes, due May 2027 | 300,000 | 300,000 |
| Unamortized debt issuance costs | (12,550) | (14,030) |
| | <u>587,450</u> | <u>585,970</u> |
| Long-term lease obligation ⁽¹⁾ | 8,411 | 1,434 |
| | <u>\$ 595,861</u> | <u>\$ 587,404</u> |
| | <u>\$ 595,861</u> | <u>\$ 654,391</u> |

⁽¹⁾ The current portion of the lease obligation has been included in accounts payable and accrued liabilities on the Company's balance sheet and totaled \$2.8 million as at June 30, 2022 (December 31, 2021 - \$3.3 million).

As of June 30, 2022, the borrowing base of the Company's Senior Secured Credit Facility (the "revolving credit facility") was \$150 million, with \$125 million readily available and \$25 million subject to approval by major lenders. During the three months ended June 30, 2022, the Company completely paid off the outstanding balance on the revolving credit facility and subsequent to the quarter, the revolving credit facility was terminated. As of June 30, 2022 and the date of termination, respectively, the Company was in compliance with all applicable covenants in the revolving credit facility.

Interest Expense

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

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|------------------|---------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Contractual interest and other financing expenses | \$ 11,063 | \$ 13,041 | \$ 22,304 | \$ 25,972 |
| Amortization of debt issuance costs | 1,131 | 894 | 2,018 | 1,775 |
| | <u>\$ 12,194</u> | <u>\$ 13,935</u> | <u>\$ 24,322</u> | <u>\$ 27,747</u> |

6. Share Capital

| | Shares of Common Stock |
|----------------------------------|---------------------------|
| Balance, December 31, 2021 | 367,144,500 |
| Shares issued on option exercise | 1,727,185 |
| Balance, June 30, 2022 | <u>368,871,685</u> |

Equity Compensation Awards

The following table provides information about performance stock units ("PSUs"), deferred share units ("DSUs"), and stock option activity for the six months ended June 30, 2022:

| | PSUs | DSUs | Stock Options | |
|-------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|--|
| | Number of Outstanding Share Units | Number of Outstanding Share Units | Number of Outstanding Stock Options | Weighted Average Exercise Price/ Stock Option (\$) |
| Balance, December 31, 2021 | 30,365,196 | 5,710,764 | 17,848,722 | 1.20 |
| Granted | 6,761,105 | 494,955 | 2,753,165 | 1.41 |
| Exercised | (4,396,646) | — | (1,727,185) | 0.74 |
| Forfeited | (166,687) | — | (105,020) | 1.69 |
| Expired | — | — | (1,187,309) | 2.80 |
| Balance, June 30, 2022 | 32,562,968 | 6,205,719 | 17,582,373 | 1.17 |

For the three and six months ended June 30, 2022 stock-based compensation expense was \$2.0 million and \$6.5 million, respectively. For the three and six months ended June 30, 2021 stock-based compensation expense was \$1.9 million and \$5.5 million, respectively.

At June 30, 2022, there was \$19.7 million (December 31, 2021 - \$11.8 million) of unrecognized compensation costs related to unvested PSUs and stock options, which are expected to be recognized over a weighted-average period of 1.7 years. During the six months ended June 30, 2022, the Company paid out \$2.4 million for PSUs vested on December 31, 2021 (six months ended June 30, 2021 - \$0.6 million for PSUs vested on December 31, 2020).

Net Income (Loss) per Share

Basic net income (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted average number of shares of common stock issued and outstanding during each period.

Diluted net income per share is calculated using the treasury stock method for share-based compensation arrangements. The treasury stock method assumes that any proceeds obtained on the exercise of share-based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares is then adjusted by the difference between the number of shares issued from the exercise of share-based compensation arrangements and shares repurchased from the related proceeds. Anti-dilutive shares represent potentially dilutive securities excluded from the computation of diluted income or loss per share as their impact would be anti-dilutive.

Weighted Average Shares Outstanding

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|-------------|---------------------------|-------------|
| | 2022 | 2021 | 2022 | 2021 |
| Weighted average number of common shares outstanding | 368,571,378 | 366,982,456 | 367,982,294 | 366,982,008 |
| Shares issuable pursuant to stock options | 11,806,859 | — | 12,351,243 | — |
| Shares assumed to be purchased from proceeds of stock options | (6,144,637) | — | (7,355,842) | — |
| Weighted average number of diluted common shares outstanding | 374,233,600 | 366,982,456 | 372,977,695 | 366,982,008 |

For the three and six months ended June 30, 2022, 6,092,908 and 5,738,428 options, on a weighted average basis (three and six months ended June 30, 2021 - all options), were excluded from the diluted income (loss) per share calculation as the options were anti-dilutive.

7. Revenue

The Company's revenues are generated from oil sales at prices that reflect the blended prices received upon shipment by the purchaser at defined sales points or defined by contract relative to ICE Brent and adjusted for Vasconia or Castilla crude differentials, quality, and transportation discounts each month. For the three and six months ended June 30, 2022, 100% (three and six months ended June 30, 2021 - 100%) of the Company's revenue resulted from oil sales. During the three and six months

ended June 30, 2022, quality and transportation discounts were 12% of the average ICE Brent price (three and six months ended June 30, 2021 - 17% and 16%, respectively).

During the three months ended June 30, 2022, the Company's production was sold primarily to two major customers in Colombia, representing 55% and 44% of total sales volumes (three months ended June 30, 2021 - two, representing 75% and 14% of total sales volumes). During the six months ended June 30, 2022, the Company's production was sold primarily to two major customers in Colombia, representing 56% and 43% of total sales volumes (six months ended June 30, 2021 - two, representing 71% and 22% of total sales volumes).

As at June 30, 2022, accounts receivable included nil of accrued sales revenue related to June 2022 production (December 31, 2021 - nil related to December 2021 production).

8. Taxes

The Company's effective tax rate was 54% for the six months ended June 30, 2022, compared to (48)% in the comparative period of 2021. Current income tax expense was \$46.3 million for the six months ended June 30, 2022, compared to a recovery in the corresponding period of 2021, primarily due to an increase in taxable income.

The deferred income tax expense for the six months ended June 30, 2022, was mainly the result of tax depreciation being higher than accounting depreciation and the use of tax losses to offset taxable income in Colombia. The deferred income tax expense in the comparative period of 2021 was also the result of excess tax depreciation compared with accounting depreciation and the use of tax losses to offset taxable income in Colombia.

For the six months ended June 30, 2022, the difference between the effective tax rate of 54% and the 35% Colombian tax rate was primarily due to an increase in the impact of foreign taxes, foreign translation adjustments, increase in the valuation allowance, non-deductible third-party royalty in Colombia, and non-deductible stock-based compensation.

For the six months ended June 30, 2021, the difference between the effective tax rate of (48)% and the 31% Colombian tax rate was primarily due to an increase in the impact of foreign taxes, foreign translation adjustments, and other permanent differences, which was partially offset by a decrease in valuation allowance.

9. Contingencies

Legal Proceedings

Gran Tierra has a number of lawsuits and claims pending, including a dispute with the Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) ("ANH") relating to the calculation of high price share royalties. Although the outcome of these lawsuits and disputes cannot be predicted with certainty, 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. Gran Tierra records costs as they are incurred or become probable and determinable.

Letters of credit and other credit support

At June 30, 2022, the Company had provided letters of credit and other credit support totaling \$105.1 million (December 31, 2021 - \$103.0 million) as security relating to work commitment guarantees in Colombia and Ecuador contained in exploration contracts and other capital or operating requirements.

10. Financial Instruments and Fair Value Measurement

Financial Instruments

Financial instruments are initially recorded at fair value, defined as the price that would be received to sell an asset or paid to market participants to settle liability at the measurement date. For financial instruments carried at fair value, 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 representing quoted market prices in active markets for identical assets and liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly or indirectly

- Level 3 - Unobservable inputs for assets and liabilities

At June 30, 2022, the Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, other long-term assets, accounts payable and accrued liabilities, derivatives, other short-term payables, long-term debt, long-term equity compensation reward liability and other long-term liabilities. The Company uses appropriate valuation techniques based on the available information to measure the fair values of assets and liabilities.

Fair Value Measurement

The following table presents the Company's fair value measurements of its financial instruments as of June 30, 2022, and December 31, 2021:

| | As at June 30, 2022 | As at December 31, 2021 |
|---|--------------------------------|------------------------------------|
| (Thousands of U.S. Dollars) | | |
| Level 1 | | |
| Assets | | |
| Prepaid equity forward - current ⁽²⁾ | \$ 6,891 | \$ — |
| Prepaid equity forward - long-term ⁽¹⁾ | 11,494 | 7,578 |
| | \$ 18,385 | \$ 7,578 |
| Liabilities | | |
| DSUs liability - long-term ⁽³⁾ | \$ 7,136 | \$ 4,346 |
| 6.25% Senior Notes | 281,460 | 273,672 |
| 7.75% Senior Notes | 275,124 | 271,500 |
| | \$ 563,720 | \$ 549,518 |
| Level 2 | | |
| Assets | | |
| Derivative asset ⁽²⁾ | \$ — | \$ 219 |
| Restricted cash and cash equivalents - long-term ⁽¹⁾ | 4,827 | 4,903 |
| | \$ 4,827 | \$ 5,122 |
| Liabilities | | |
| Derivative liability | \$ 7,230 | \$ 2,976 |
| Revolving credit facility | — | 66,987 |
| PSUs liability - current ⁽⁴⁾ | 12,516 | 2,710 |
| PSUs liability - long-term ⁽³⁾ | 7,736 | 9,372 |
| | \$ 27,482 | \$ 82,045 |
| Level 3 | | |
| Liabilities | | |
| Asset retirement obligation - current ⁽⁴⁾ | \$ 3,421 | \$ — |
| Asset retirement obligation - long-term | 56,783 | 54,525 |
| | \$ 60,204 | \$ 54,525 |

⁽¹⁾The long-term portion of restricted cash and Prepaid equity forward are included in the other long-term assets on the Company's balance sheet

⁽²⁾Included in the other current assets on the Company's balance sheet

⁽³⁾Long-term DSUs and PSUs liabilities are included in the long-term equity compensation award liability on the Company's balance sheet

⁽⁴⁾Current portion of PSU liability and asset retirement obligation are included in the other short-term liabilities on the Company's balance sheet

The fair values of cash and cash equivalents, current restricted cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturity of these instruments.

The fair value of long-term restricted cash and cash equivalents approximate its carrying value because interest rates are variable and reflective of market rates.

Prepaid Equity Forward (“PEF”)

To reduce the Company’s exposure to changes in the trading price of the Company’s common shares on outstanding PSUs, the Company entered into a PEF. At the end of the term, the counterparty will pay the Company an amount equivalent to the notional amount of the shares using the price of the Company’s common shares at the valuation date. The Company has the discretion to increase or decrease the notional amount of the PEF or terminate the agreement early. As at June 30, 2022, the Company’s PEF had a notional amount of 16 million shares with a fair value of \$18.4 million (As at December 31, 2021 - 10 million shares with a fair value of \$7.6 million). During the three and six months ended June 30, 2022, the Company recorded a \$5.2 million loss and \$2.7 million gain, respectively, on the PEF in general and administrative expenses (three and six months ended June 30, 2021- \$0.1 million gain). The fair value of the PEF asset was estimated using the Company’s share price quoted in active markets at the end of each reporting period.

DSUs liability

The fair value of DSUs liability was estimated using Company’s share price quoted in active markets at the end of each reporting period.

PSUs liability

The fair value of the PSUs liability was estimated based on a pricing model using inputs, such as Company’s share price and PSUs performance factor.

Derivative asset and derivative liability

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

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

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|------------------|----------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Commodity price derivatives loss | \$ 5,172 | \$ 21,217 | \$ 26,611 | \$ 44,849 |
| Foreign currency derivatives loss | — | 22 | — | 88 |
| Derivative instruments loss | \$ 5,172 | \$ 21,239 | \$ 26,611 | \$ 44,937 |
| Unrealized PetroTal investment loss (gain) | \$ — | \$ 2,614 | \$ — | \$ (3,861) |
| Loss on sale of PetroTal shares | — | — | — | 5,070 |
| Other financial instruments loss | \$ — | \$ 2,614 | \$ — | \$ 1,209 |

Revolving credit facility and Senior Notes

Financial instruments not recorded at fair value at June 30, 2022, included the Senior Notes and the revolving credit facility (Note 5).

At June 30, 2022, the carrying amounts of the 6.25% Senior Notes and the 7.75% Senior Notes were \$294.8 million and \$292.6 million, respectively, which represented the aggregate principal amount less unamortized debt issuance costs, and the fair values were \$281.5 million and \$275.1 million, respectively. The fair value of long-term restricted cash and cash equivalents and the revolving credit facility approximated their carrying value because interest rates are variable and reflective of market rates. The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

Asset retirement obligation

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

Commodity Price Derivatives

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

All Company's commodity price derivatives expired on June 30, 2022 and as at June 30, 2022, the Company had no outstanding commodity price derivatives.

11. Supplemental Cash Flow Information

The following table provides a reconciliation of cash and cash equivalents and restricted cash and cash equivalents shown as a sum of these amounts in the interim unaudited condensed consolidated statements of cash flows:

| (Thousands of U.S. Dollars) | As at June 30, | | As at December 31, | |
|---|-----------------------|------------------|---------------------------|------------------|
| | 2022 | 2021 | 2021 | 2020 |
| Cash and cash equivalents | \$ 108,558 | \$ 19,573 | \$ 26,109 | \$ 13,687 |
| Restricted cash and cash equivalents - current | 1,142 | 392 | 392 | 427 |
| Restricted cash and cash equivalents - long-term ⁽¹⁾ | 4,827 | 3,590 | 4,903 | 3,409 |
| | \$ 114,527 | \$ 23,555 | \$ 31,404 | \$ 17,523 |

⁽¹⁾ Included in other long-term assets on the Company's balance sheet

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

| (Thousands of U.S. Dollars) | Six Months Ended June 30, | |
|---|----------------------------------|------------------|
| | 2022 | 2021 |
| Accounts receivable and other long-term assets | \$ 2,356 | \$ 28 |
| Derivatives | (6,961) | 6,264 |
| Inventory | (736) | (1,934) |
| Prepays | (3,075) | (631) |
| Accounts payable and accrued and other long-term liabilities | 8,264 | 11,991 |
| Taxes receivable and payable | 56,481 | 11,439 |
| Net changes in assets and liabilities from operating activities | \$ 56,329 | \$ 27,157 |

Changes in non-cash investing working capital for the six months ended June 30, 2022, are comprised of an increase in accounts payable and accrued liabilities of \$11.2 million and an increase in accounts receivable of \$0.2 million (six months

ended June 30, 2021, an increase in accounts payable and accrued liabilities of \$3.7 million and an increase in accounts receivable of \$0.5 million).

The following table provides additional supplemental cash flow disclosures:

| (Thousands of U.S. Dollars) | Six Months Ended June 30, | |
|---|----------------------------------|-------------|
| | 2022 | 2021 |
| Cash paid for income taxes | \$ 20,468 | \$ 7,139 |
| Cash paid for interest | \$ 11,933 | \$ 25,659 |
| Non-cash investing activities: | | |
| Net liabilities related to property, plant and equipment, end of period | \$ 41,106 | \$ 31,887 |

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

The following discussion of our financial condition and results of operations should be read in conjunction with the "Financial Statements" as set out in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as the "Financial Statements and Supplementary Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Part II, Items 7 and 8, respectively, of our 2021 Annual Report on Form 10-K. Please see the cautionary language at the beginning of this Quarterly Report on Form 10-Q regarding the identification of and risks relating to forward-looking statements and the risk factors described in Part II, Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q, as well as Part I, Item 1A "Risk Factors" in our 2021 Annual Report on Form 10-K.

Financial and Operational Highlights

Key Highlights for the second quarter of 2022

- Net income in the second quarter of 2022 was \$53.0 million or \$0.14 per share basic and diluted, compared to a net loss of \$17.6 million or \$(0.05) per share basic and diluted in the second quarter of 2021
- Income before income taxes in the second quarter of 2022 was \$91.6 million compared to a loss before income taxes of \$8.4 million in the second quarter of 2021
- During the second quarter of 2022, we completely repaid the amount drawn under the revolving credit facility, and as of June 30, 2022, the credit facility remained undrawn. Subsequent to quarter-end, the credit facility was terminated
- Funds flow from operations⁽²⁾ increased by 345% to \$103.6 million compared to the second quarter of 2021 and increased 19% from the first quarter of 2022
- During the second quarter, the Company generated \$38.4 million of free cash flow⁽²⁾, which was partially used for debt reduction
- NAR production for the second quarter of 2022 was 23,215 BOPD representing a 22% increase from 18,976 BOPD in the second quarter of 2021, primarily due to a successful drilling and workover campaign in the Acordionero and Costayaco fields. NAR production was comparable to the first quarter of 2022
- Sales volumes for the second quarter of 2022 were 22,847 BOPD representing a 24% increase from 18,454 BOPD in the second quarter of 2021 and was comparable to the first quarter of 2022
- Oil sales were \$205.8 million, 113% higher compared to \$96.6 million in the second quarter of 2021, as a result of a 62% increase in Brent price and higher sales volumes offset by higher quality and transportation discounts. Oil sales increased by 18% compared to \$174.6 million in the first quarter of 2022 as a result of a 14% increase in Brent price, partially offset by higher quality and transportation discounts
- Operating expenses were \$39.5 million, 50% higher than \$26.2 million in the second quarter of 2021, due to increased workovers and higher power generation costs as a result of increased production in all major fields. Operating expenses increased by 13% from \$34.9 million in the first quarter of 2022, primarily due to higher workover activities during current quarter
- Transportation expenses decreased by 16% compared to the second quarter of 2021. During the second quarter of 2021, there was a change in delivery points in response to national blockades in Colombia, which resulted in higher transportation costs for the period. Compared to the first quarter of 2022, transportation expenses decreased by 11% as a result of a change in transportation routes which had lower transportation costs per bbl
- Operating netback⁽²⁾ increased by 143% to \$163.8 million compared to \$67.4 million in the second quarter of 2021 and increased 20% from \$136.8 million in the first quarter of 2022
- Adjusted EBITDA⁽²⁾ increased by 286% to \$140.1 million compared to \$36.3 million in the second quarter of 2021 and increased 17% from \$119.4 million in the first quarter of 2022
- Quality and transportation discounts for the second quarter of 2022, increased to \$13.00 per bbl compared to \$11.54 per bbl in the second quarter of 2021 and \$12.57 per bbl in the first quarter of 2022
- General and administrative expenses ("G&A") before stock-based compensation increased by 10% compared to the second quarter of 2021 due to higher costs for special projects and travel costs in the current quarter. G&A expenses before stock-based compensation were comparable to the first quarter of 2022
- Capital additions for the second quarter of 2022 were \$65.2 million, an increase of 74% and 57%, respectfully, compared to the second quarter of 2021 and the first quarter of 2022, as a result of the drilling program in the Acordionero and Costayaco fields

| (Thousands of U.S. Dollars, unless otherwise indicated) | Three Months Ended June 30, | | | Three Months Ended March 31, | Six Months Ended June 30, | | |
|---|-----------------------------|-------------|----------|---------------------------------------|---------------------------|-------------|----------|
| | 2022 | 2021 | % Change | 2022 | 2022 | 2021 | % Change |
| | | | | | | | |
| Average Daily Volumes (BOPD) | | | | | | | |
| Consolidated | | | | | | | |
| Working Interest (“WI”) Production Before Royalties | 30,607 | 23,035 | 33 | 29,362 | 29,988 | 23,745 | 26 |
| Royalties | (7,392) | (4,059) | 82 | (6,529) | (6,962) | (3,995) | 74 |
| Production NAR | 23,215 | 18,976 | 22 | 22,833 | 23,026 | 19,750 | 17 |
| Increase in Inventory | (368) | (522) | 30 | (103) | (236) | (393) | 40 |
| Sales⁽¹⁾ | 22,847 | 18,454 | 24 | 22,730 | 22,790 | 19,357 | 18 |
| Net Income (Loss) | \$ 52,972 | \$ (17,627) | 401 | \$ 14,119 | \$ 67,091 | \$ (55,049) | 222 |
| Operating Netback | | | | | | | |
| Oil Sales | \$ 205,785 | \$ 96,623 | 113 | \$ 174,569 | \$ 380,354 | \$ 192,116 | 98 |
| Operating Expenses | (39,494) | (26,247) | 50 | (34,935) | (74,429) | (56,918) | 31 |
| Transportation Expenses | (2,513) | (3,002) | (16) | (2,834) | (5,347) | (5,601) | (5) |
| Operating Netback⁽²⁾ | \$ 163,778 | \$ 67,374 | 143 | \$ 136,800 | \$ 300,578 | \$ 129,597 | 132 |
| G&A Expenses Before Stock- Based Compensation | \$ 7,847 | \$ 7,133 | 10 | \$ 7,779 | \$ 15,626 | \$ 13,950 | 12 |
| G&A Stock-Based Compensation Expense | 1,989 | 1,873 | 6 | 4,557 | 6,546 | 5,544 | 18 |
| G&A Expenses, Including Stock-Based Compensation | \$ 9,836 | \$ 9,006 | 9 | \$ 12,336 | \$ 22,172 | \$ 19,494 | 14 |
| Adjusted EBITDA⁽²⁾ | \$ 140,113 | \$ 36,299 | 286 | \$ 119,378 | \$ 259,491 | \$ 78,203 | 232 |
| Funds Flow From Operations⁽²⁾ | \$ 103,625 | \$ 23,272 | 345 | \$ 87,310 | \$ 190,935 | \$ 52,245 | 265 |
| Capital Expenditures | \$ 65,199 | \$ 37,384 | 74 | \$ 41,483 | \$ 106,682 | \$ 74,811 | 43 |

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

⁽²⁾ Non-GAAP measures

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

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

EBITDA, as presented, is defined as net income or loss adjusted for depletion, depreciation and accretion (“DD&A”) expenses, interest expense and income tax expense. Adjusted EBITDA, as presented, is defined as EBITDA adjusted for non-cash lease expense, lease payments, unrealized foreign exchange gain or loss, stock-based compensation expense or recovery, unrealized derivative instruments gain or loss, and other financial instruments gain or loss. Management uses this supplemental measure to analyze performance and income generated by our principal business activities prior to the consideration of how non-cash items affect that income and believes that this financial measure is useful supplemental information for investors to analyze our performance and our financial results. A reconciliation from net income (loss) to EBITDA and adjusted EBITDA is as follows:

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Three Months | Six Months Ended June 30, | |
|---|-----------------------------|-------------|-----------------|---------------------------|-------------|
| | 2022 | 2021 | Ended March 31, | 2022 | 2021 |
| Net income (loss) | \$ 52,972 | \$ (17,627) | \$ 14,119 | \$ 67,091 | \$ (55,049) |
| Adjustments to reconcile net income (loss) to EBITDA and Adjusted EBITDA | | | | | |
| DD&A expenses | 42,216 | 28,927 | 40,963 | 83,179 | 60,245 |
| Interest expense | 12,194 | 13,935 | 12,128 | 24,322 | 27,747 |
| Income tax expense | 38,666 | 9,189 | 39,540 | 78,206 | 17,840 |
| EBITDA (non-GAAP) | \$ 146,048 | \$ 34,424 | \$ 106,750 | \$ 252,798 | \$ 50,783 |
| Non-cash lease expense | 747 | 370 | 411 | 1,158 | 814 |
| Lease payments | (388) | (393) | (344) | (732) | (855) |
| Unrealized foreign exchange loss (gain) | 4,341 | 477 | (4,839) | (498) | 13,480 |
| Stock-based compensation expense | 1,989 | 1,873 | 4,557 | 6,546 | 5,544 |
| Unrealized derivative instruments (gain) loss | (12,624) | (3,066) | 12,843 | 219 | 7,228 |
| Other financial instruments loss | — | 2,614 | — | — | 1,209 |
| Adjusted EBITDA (non-GAAP) | \$ 140,113 | \$ 36,299 | \$ 119,378 | \$ 259,491 | \$ 78,203 |

Funds flow from operations, as presented, is defined as net income or loss adjusted for DD&A expenses, deferred tax expense or recovery, stock-based compensation expense or recovery, amortization of debt issuance costs, non-cash lease expense, lease payments, unrealized foreign exchange gain or loss, derivative instruments gain or loss, cash settlement on derivative instruments and other financial instruments gain or loss. Management uses this financial measure to analyze performance and income generated by our principal business activities prior to the consideration of how non-cash items affect that income and believes that this financial measure is also useful supplemental information for investors to analyze performance and our financial results. Free cash flow, as presented, is defined as funds flow less capital expenditures. Management uses this financial measure to analyze cash flow generated by our principal business activities after capital requirements and believes that this financial measure is also useful supplemental information for investors to analyze performance and our financial results. A reconciliation from net income (loss) to funds flow from operations, and free cash flow is as follows:

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Three Months | Six Months Ended June 30, | |
|---|-----------------------------|-------------|-----------------|---------------------------|-------------|
| | 2022 | 2021 | Ended March 31, | 2022 | 2021 |
| Net income (loss) | \$ 52,972 | \$ (17,627) | \$ 14,119 | \$ 67,091 | \$ (55,049) |
| Adjustments to reconcile net income (loss) to funds flow from operations | | | | | |
| DD&A expenses | 42,216 | 28,927 | 40,963 | 83,179 | 60,245 |
| Deferred tax expense | 13,241 | 9,203 | 18,713 | 31,954 | 17,854 |
| Stock-based compensation expense | 1,989 | 1,873 | 4,557 | 6,546 | 5,544 |
| Amortization of debt issuance costs | 1,131 | 894 | 887 | 2,018 | 1,775 |
| Non-cash lease expense | 747 | 370 | 411 | 1,158 | 814 |
| Lease payments | (388) | (393) | (344) | (732) | (855) |
| Unrealized foreign exchange loss (gain) | 4,341 | 477 | (4,839) | (498) | 13,480 |
| Derivative instruments loss | 5,172 | 21,239 | 21,439 | 26,611 | 44,937 |
| Cash settlements on derivative instruments | (17,796) | (24,305) | (8,596) | (26,392) | (37,709) |
| Other financial instruments loss | — | 2,614 | — | — | 1,209 |
| Funds flow from operations (non-GAAP) | \$ 103,625 | \$ 23,272 | \$ 87,310 | \$ 190,935 | \$ 52,245 |
| Capital expenditures | \$ 65,199 | \$ 37,384 | \$ 41,483 | \$ 106,682 | \$ 74,811 |
| Free cash flow (non-GAAP) | \$ 38,426 | \$ (14,112) | \$ 45,827 | \$ 84,253 | \$ (22,566) |

Additional Operational Results

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | | Three Months Ended March 31, | Six Months Ended June 30, | | |
|---|-----------------------------|-------------|----------|------------------------------|---------------------------|-------------|----------|
| | 2022 | 2021 | % Change | 2022 | 2022 | 2021 | % Change |
| Oil sales | \$ 205,785 | \$ 96,623 | 113 | \$ 174,569 | \$ 380,354 | \$ 192,116 | 98 |
| Operating expenses | 39,494 | 26,247 | 50 | 34,935 | 74,429 | 56,918 | 31 |
| Transportation expenses | 2,513 | 3,002 | (16) | 2,834 | 5,347 | 5,601 | (5) |
| Operating netback ⁽¹⁾ | 163,778 | 67,374 | 143 | 136,800 | 300,578 | 129,597 | 132 |
| DD&A expenses | 42,216 | 28,927 | 46 | 40,963 | 83,179 | 60,245 | 38 |
| G&A expenses before stock-based compensation | 7,847 | 7,133 | 10 | 7,779 | 15,626 | 13,950 | 12 |
| G&A stock-based compensation expense | 1,989 | 1,873 | 6 | 4,557 | 6,546 | 5,544 | 18 |
| Foreign exchange loss (gain) | 2,722 | 91 | 2,891 | (3,725) | (1,003) | 13,174 | (108) |
| Derivative instruments loss | 5,172 | 21,239 | (76) | 21,439 | 26,611 | 44,937 | (41) |
| Other financial instruments loss | — | 2,614 | (100) | — | — | 1,209 | (100) |
| Interest expense | 12,194 | 13,935 | (12) | 12,128 | 24,322 | 27,747 | (12) |
| | 72,140 | 75,812 | (5) | 83,141 | 155,281 | 166,806 | (7) |
| Income (loss) before income taxes | 91,638 | (8,438) | 1,186 | 53,659 | 145,297 | (37,209) | 490 |
| Current income tax expense | 25,425 | (14) | 181,707 | 20,827 | 46,252 | (14) | 330,471 |
| Deferred income tax expense | 13,241 | 9,203 | 44 | 18,713 | 31,954 | 17,854 | 79 |
| | 38,666 | 9,189 | 321 | 39,540 | 78,206 | 17,840 | 338 |
| Net income (loss) | \$ 52,972 | \$ (17,627) | 401 | \$ 14,119 | \$ 67,091 | \$ (55,049) | 222 |
| Sales Volumes (NAR) | | | | | | | |
| Total sales volumes, BOPD | 22,847 | 18,454 | 24 | 22,730 | 22,847 | 19,357 | 18 |
| Brent Price per bbl | \$ 111.98 | \$ 69.08 | 62 | \$ 97.90 | \$ 104.94 | \$ 65.23 | 61 |
| Consolidated Results of Operations per bbl Sales Volumes NAR | | | | | | | |
| Oil sales | \$ 98.98 | \$ 57.54 | 72 | \$ 85.33 | \$ 92.21 | \$ 54.83 | 68 |
| Operating expenses | 19.00 | 15.62 | 22 | 17.08 | 18.04 | 16.24 | 11 |
| Transportation expenses | 1.21 | 1.79 | (32) | 1.39 | 1.30 | 1.60 | (19) |
| Operating netback ⁽¹⁾ | 78.77 | 40.13 | 96 | 66.86 | 72.87 | 36.99 | 97 |
| DD&A expenses | 20.31 | 17.23 | 18 | 20.02 | 20.17 | 17.20 | 17 |
| G&A expenses before stock-based compensation | 3.77 | 4.25 | (11) | 3.80 | 3.79 | 3.98 | (5) |
| G&A stock-based compensation expense | 0.96 | 1.12 | (14) | 2.23 | 1.59 | 1.58 | 1 |
| Foreign exchange loss (gain) | 1.31 | 0.05 | 2,520 | (1.82) | (0.24) | 3.76 | (106) |

| | | | | | | | |
|-----------------------------------|-----------------|-------------------|-------------|----------------|-----------------|-------------------|-------------|
| Derivative instruments loss | 2.49 | 12.65 | (80) | 10.48 | 6.45 | 12.83 | (50) |
| Other financial instruments loss | — | 1.56 | (100) | — | — | 0.35 | (100) |
| Interest expense | 5.87 | 8.30 | (29) | 5.93 | 5.90 | 7.92 | (26) |
| | 34.71 | 45.16 | (23) | 40.64 | 37.66 | 47.62 | (21) |
| Income (loss) before income taxes | 44.06 | (5.03) | 976 | 26.22 | 35.21 | (10.63) | 431 |
| Current income tax expense | 12.23 | (0.01) | 122,400 | 10.18 | 11.21 | — | 100 |
| Deferred income tax expense | 6.37 | 5.48 | 16 | 9.15 | 7.75 | 5.10 | 52 |
| | 18.60 | 5.47 | 240 | 19.33 | 18.96 | 5.10 | 272 |
| Net income (loss) | \$ 25.46 | \$ (10.50) | 342 | \$ 6.89 | \$ 16.25 | \$ (15.73) | 203 |

⁽¹⁾ Operating netback is a non-GAAP measure that does not have any standardized meaning prescribed under GAAP. Refer to “Financial and Operational Highlights—non-GAAP measures” for a definition of this measure.

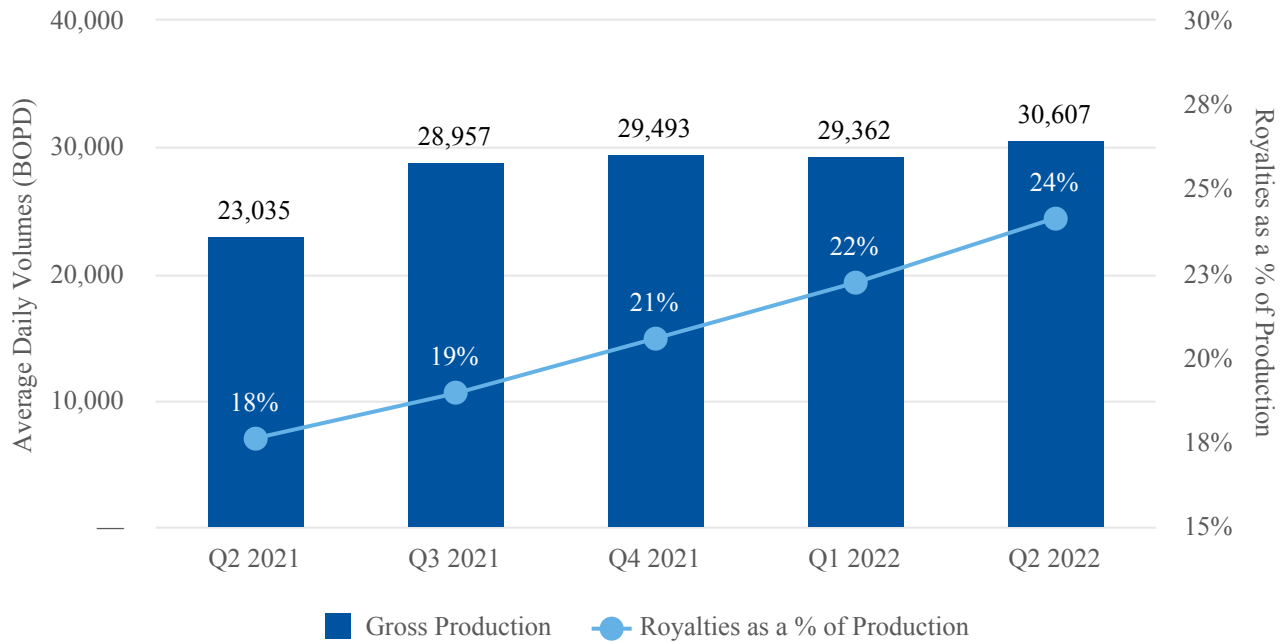
Oil Production and Sales Volumes, BOPD

| | Three Months Ended June 30, | | Three Months Ended March 31, | Six Months Ended June 30, | |
|--|-------------------------------------|---------|------------------------------|---------------------------|---------|
| | 2022 | 2021 | 2022 | 2022 | 2021 |
| | Average Daily Volumes (BOPD) | | | | |
| WI Production Before Royalties | 30,607 | 23,035 | 29,362 | 29,988 | 23,745 |
| Royalties | (7,392) | (4,059) | (6,529) | (6,962) | (3,995) |
| Production NAR | 23,215 | 18,976 | 22,833 | 23,026 | 19,750 |
| Increase in Inventory | (368) | (522) | (103) | (236) | (393) |
| Sales | 22,847 | 18,454 | 22,730 | 22,790 | 19,357 |
| Royalties, % of WI Production Before Royalties | 24 % | 18 % | 22 % | 23 % | 17 % |

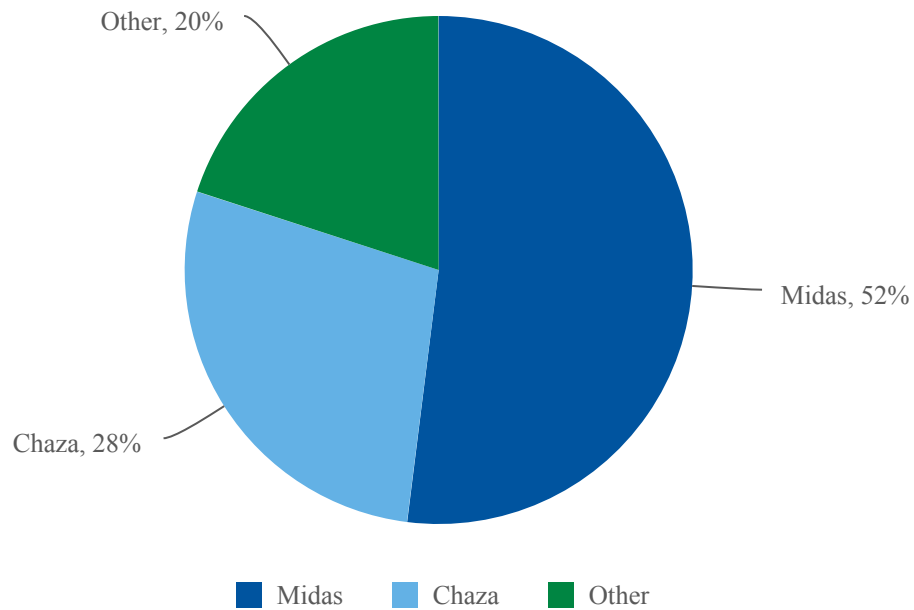
Oil production NAR for the three and six months ended June 30, 2022, increased by 22% and 17% compared to the corresponding periods of 2021 due to the successful drilling and workover campaign in the Acordionero and Costayaco fields. Oil production NAR was comparable to the prior quarter.

Royalties as a percentage of production for the three and six months ended June 30, 2022, increased to 24% and 23% compared to the corresponding periods of 2021 and increased compared to the prior quarter commensurate with the increase in benchmark oil prices and the price sensitive royalty regime in Colombia.

WI Production Before Royalties



WI Production By Block, Year-to-Date June 30, 2022



The Midas block includes the Acordionero, Chuirra, and Ayombero oil fields, and the Chaza block includes the Costayaco and Moqueta oil fields.

Operating Netback

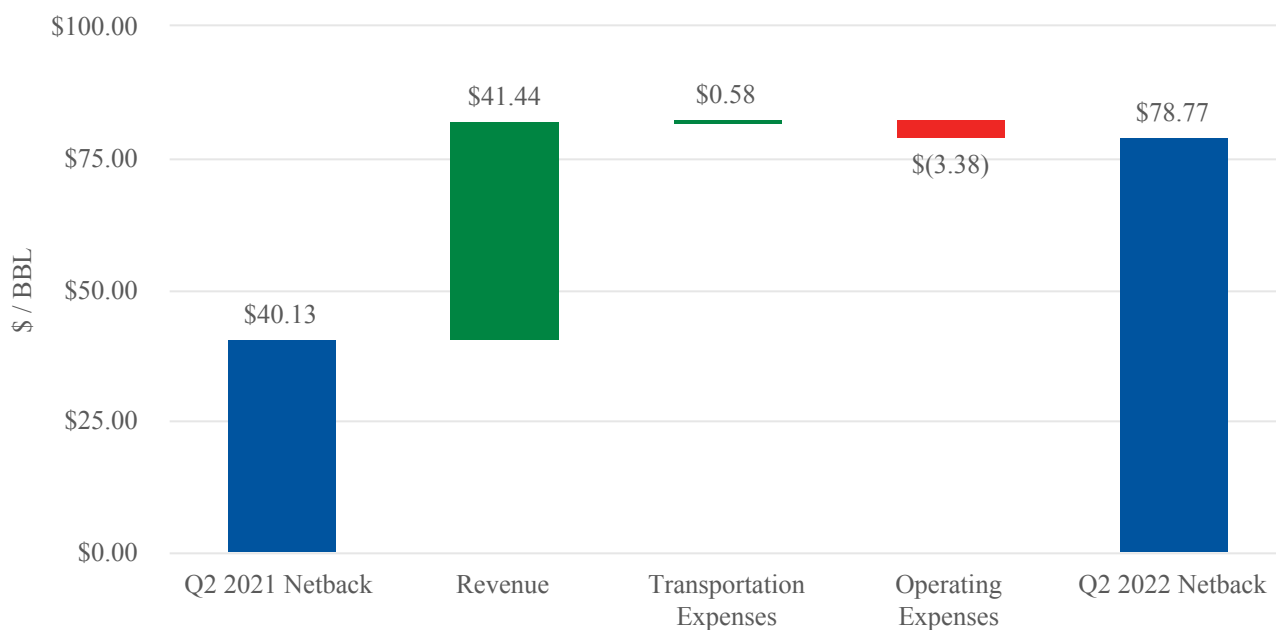
| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Three Months Ended March 31, | Six Months Ended June 30, | |
|----------------------------------|-----------------------------|-----------|------------------------------|---------------------------|------------|
| | 2022 | 2021 | 2022 | 2022 | 2021 |
| Oil Sales | \$ 205,785 | \$ 96,623 | \$ 174,569 | \$ 380,354 | \$ 192,116 |
| Transportation Expenses | (2,513) | (3,002) | (2,834) | (5,347) | (5,601) |
| | 203,272 | 93,621 | 171,735 | 375,007 | 186,515 |
| Operating Expenses | (39,494) | (26,247) | (34,935) | (74,429) | (56,918) |
| Operating Netback ⁽¹⁾ | \$ 163,778 | \$ 67,374 | \$ 136,800 | \$ 300,578 | \$ 129,597 |

(U.S. Dollars Per bbl Sales Volumes NAR)

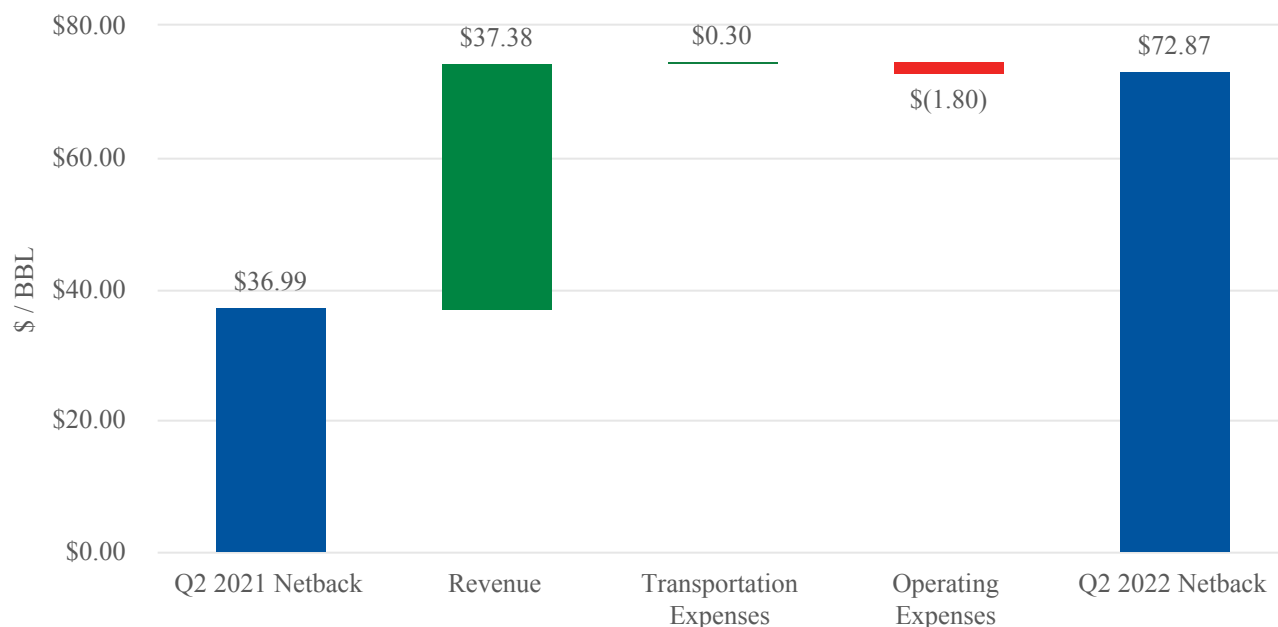
| | | | | | |
|---|-----------------|----------|----------|-----------------|----------|
| Brent | \$ 111.98 | \$ 69.08 | \$ 97.90 | \$ 104.94 | \$ 65.23 |
| Quality and Transportation Discounts | (13.00) | (11.54) | (12.57) | (12.73) | (10.40) |
| Average Realized Price | 98.98 | 57.54 | 85.33 | 92.21 | 54.83 |
| Transportation Expenses | (1.21) | (1.79) | (1.39) | (1.30) | (1.60) |
| Average Realized Price Net of Transportation Expenses | 97.77 | 55.75 | 83.94 | 90.91 | 53.23 |
| Operating Expenses | (19.00) | (15.62) | (17.08) | (18.04) | (16.24) |
| Operating Netback ⁽¹⁾ | \$ 78.77 | \$ 40.13 | \$ 66.86 | \$ 72.87 | \$ 36.99 |

⁽¹⁾ Operating netback is a non-GAAP measure that does not have any standardized meaning prescribed under GAAP. Refer to “Financial and Operational Highlights—non-GAAP measures” for a definition of this measure.

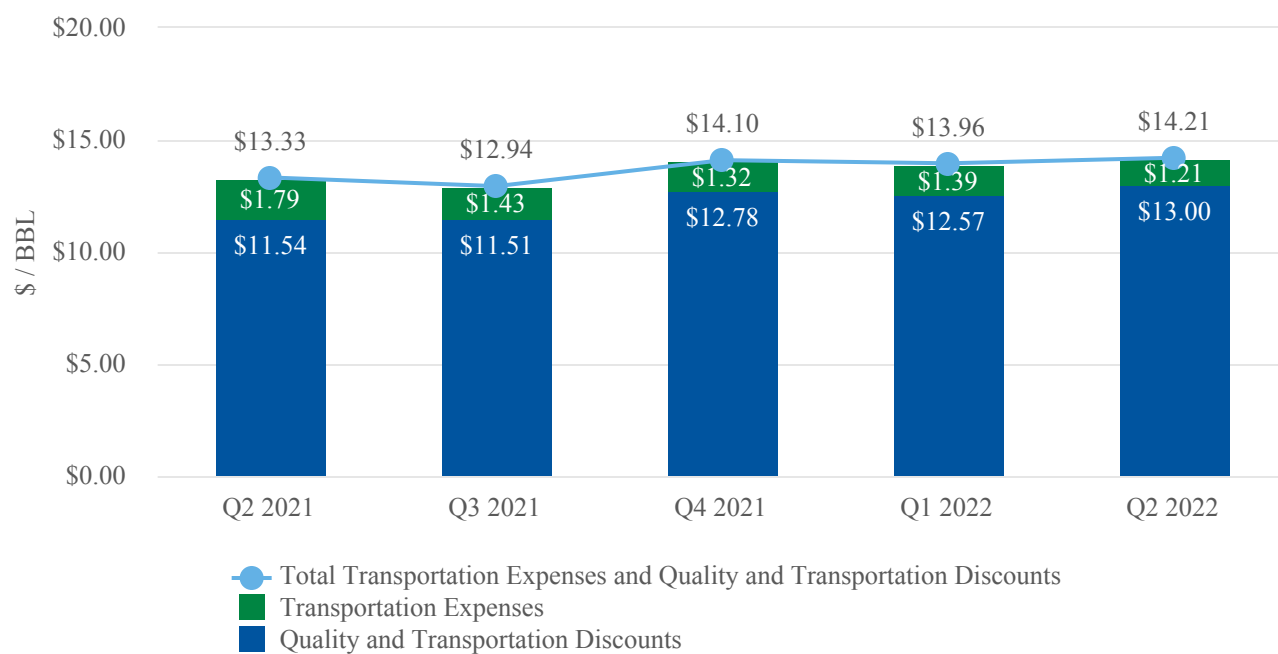
Change in Operating Netback by Component Q2 2021 vs. Q2 2022



**Change in Operating Netback by Component
Q2 2021 YTD vs. Q2 2022 YTD**



Quality and Transportation Discounts & Transportation Expenses



Oil sales for the three months ended June 30, 2022, increased by 113% to \$205.8 million due to a 62% increase in Brent price and 24% higher sales volumes, partially offset by a 13% increase in the quality and transportation discounts as a result of the widening of the Castilla and Vasconia differentials to \$7.82 and \$5.09 per bbl for the three months ended June 30, 2022 from \$5.02 and \$2.89 for the corresponding period of 2021, respectively. For the six months ended June 30, 2022, oil sales increased by 98% to \$380.4 million compared to the corresponding period of 2021 due to 61% increase in Brent price and 18% higher sales volumes, partially offset by 22% increase in the quality and transportation discounts as a result of widening of Castilla and Vasconia differentials to \$7.10 and \$4.35 for the six months ended June 30, 2022 from \$4.50 and \$2.65 per bbl for the corresponding period of 2021, respectively. Compared to the prior quarter, oil sales increased 18%, primarily as a result of a 14% increase in Brent price, partially offset by 3% higher quality and transportation discounts.

The following table shows the effect of changes in realized price and sales volumes on our oil sales for the three and six months ended June 30, 2022, compared to the prior quarter and the corresponding periods of 2021:

| (Thousands of U.S. Dollars) | Second Quarter 2022 Compared with First Quarter 2022 | Second Quarter 2022 Compared with Second Quarter 2021 | Six Months Ended June 30, 2022 Compared with Six Months Ended June 30, 2021 |
|---|---|--|--|
| Oil sales for the comparative period | \$ 174,569 | \$ 96,623 | \$ 192,116 |
| Realized sales price increase effect | 28,371 | 86,159 | 154,176 |
| Sales volumes increase effect | 2,845 | 23,003 | 34,062 |
| Oil sales for the three and six months ended June 30, 2022 | \$ 205,785 | \$ 205,785 | \$ 380,354 |

The average realized price for the three and six months ended June 30, 2022, increased by 72% and 68%, compared to the corresponding periods of 2021. The increase was commensurate with the increase in benchmark oil prices, offset by higher Castilla and Vasconia differentials. Compared to the prior quarter, the average realized price increased 16% due to higher benchmark oil prices, offset by higher Castilla and Vasconia differentials.

Operating expenses for the three months ended June 30, 2022, increased by 50% to \$39.5 million or by \$3.38 per bbl to \$19.00 per bbl, primarily as a result of \$1.16 per bbl increased workovers and \$1.95 per bbl higher power generation costs as a result of increased production in all major fields compared to the corresponding period of 2021. Lower operating activities during the second quarter of 2021 were attributed to national blockades in Colombia affecting all major fields.

Operating expenses for the six months ended June 30, 2022, increased by 31% to \$74.4 million or by \$1.80 per bbl to \$18.04 per bbl, primarily due to \$0.58 per bbl increased workovers and \$1.11 per bbl higher power generation costs as a result of increased production in all major fields. Compared to the prior quarter, operating expenses increased by 13% or \$1.92 per bbl from \$34.9 million or \$17.08 per bbl, primarily due to higher workover activities.

We have options to sell our oil through multiple pipelines and trucking routes. Each option has varying effects on realized sales price and transportation expenses. The following table shows the percentage of oil volumes we sold in Colombia using each option for the three and six months ended June 30, 2022 and 2021, and the prior quarter:

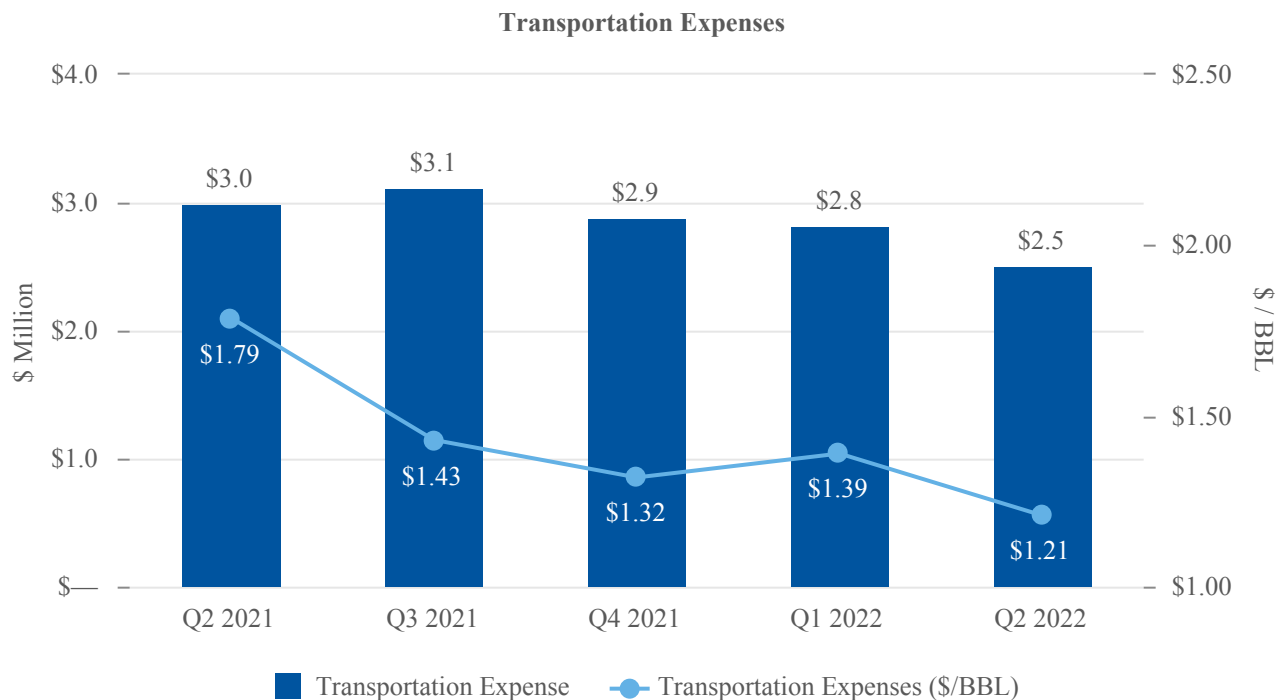
| | Three Months Ended June 30, | | Three Months Ended March 31, | Six Months Ended June 30, | |
|---|--|-------------|---|----------------------------------|-------------|
| | 2022 | 2021 | 2022 | 2022 | 2021 |
| Volume transported through pipeline | — % | 9 % | — % | — % | 5 % |
| Volume sold at wellhead | 48 % | 67 % | 47 % | 48 % | 58 % |
| Volume transported via truck to sales point | 52 % | 24 % | 53 % | 52 % | 37 % |
| | 100 % | 100 % | 100 % | 100 % | 100 % |

Volumes transported through pipeline or via truck receive a higher realized price but incur higher transportation expenses. Conversely, volumes sold at the wellhead have the opposite effect of a lower realized price, offset by lower transportation expenses.

Transportation expenses for the three and six months ended June 30, 2022, decreased by 16% and 5% to \$2.5 million and \$5.3 million, respectively, compared to the corresponding periods of 2021. On a per bbl basis, transportation expenses decreased by 32% and 19% to \$1.21 and \$1.30 for the three and six months ended June 30, 2022 compared to the corresponding periods of 2021. The decrease in transportation expenses per bbl compared to the corresponding periods of 2021 was a result of change in transportation routes that had lower transportation costs per bbl. During the second quarter of 2021, there was a change in delivery points in response to national blockades in Colombia which had higher transportation costs per bbl.

For the three months ended June 30, 2022, transportation expenses decreased by 11% compared to \$2.8 million in the prior quarter. On a per bbl basis, transportation expenses decreased by 13% from \$1.39 in the prior quarter due to higher volumes

sold at wellhead and lower volumes transported from Surorient block which was impacted by local farmers blockade during the second quarter of 2022.



DD&A Expenses

| | Three Months Ended June 30, | | Three Months Ended March 31, | | Six Months Ended June 30, | |
|---|-----------------------------|-----------|------------------------------|-----------|---------------------------|-----------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| DD&A Expenses, thousands of U.S. Dollars | \$ 42,216 | \$ 28,927 | \$ 40,963 | \$ 60,245 | \$ 83,179 | \$ 60,245 |
| DD&A Expenses, U.S. Dollars per bbl | 20.31 | 17.23 | 20.02 | 17.20 | 20.17 | 17.20 |

DD&A expenses for the three and six months ended June 30, 2022, increased 46% and 38% or \$3.08 and \$2.97 per bbl due to increased production and higher costs in the depletable base compared to the corresponding periods of 2021.

For the three months ended June 30, 2022, DD&A expenses increased 3% when compared to the prior quarter due to higher production in the current quarter. On a per bbl basis, DD&A expenses increased by \$0.29 when compared to the prior quarter due to higher costs in the depletable base.

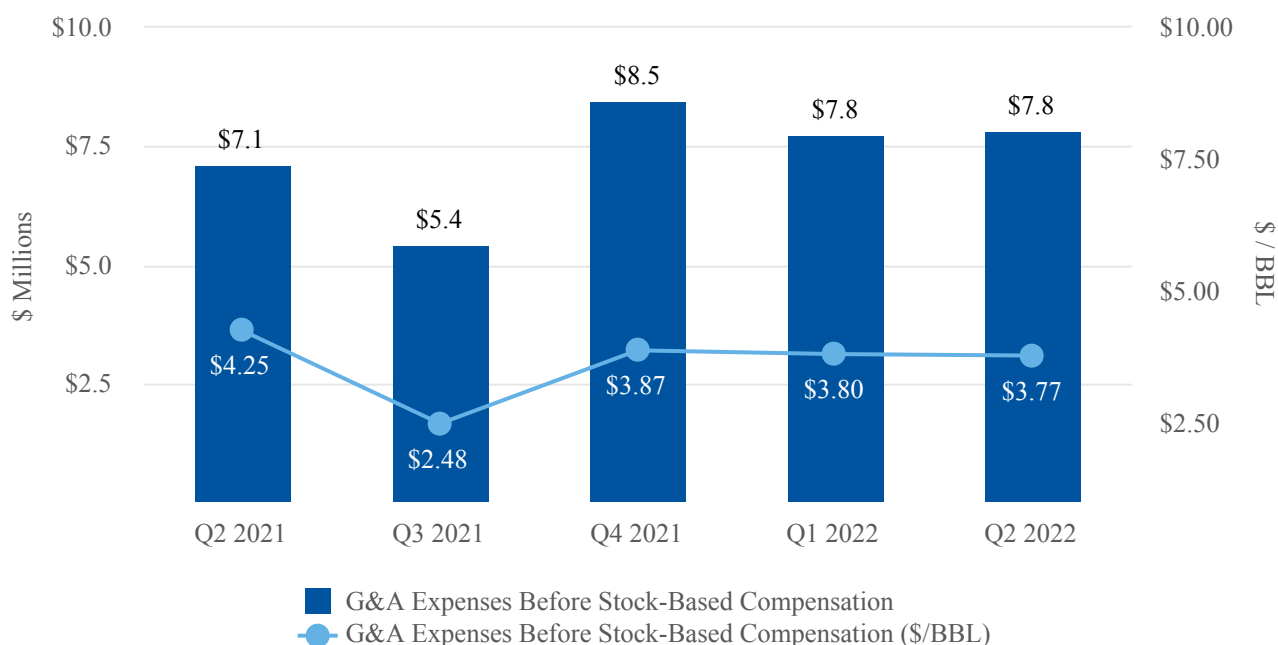
G&A Expenses

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | | Three Months Ended March 31, | Six Months Ended June 30, | | |
|---|-----------------------------|-----------------|-------------|------------------------------|---------------------------|------------------|------------|
| | 2022 | 2021 | % Change | 2022 | 2022 | 2021 | % Change |
| G&A Expenses Before Stock-Based Compensation | \$ 7,847 | \$ 7,133 | 10 | \$ 7,779 | \$ 15,626 | \$ 13,950 | 12 |
| G&A Stock-Based Compensation Expense | 1,989 | 1,873 | 6 | 4,557 | 6,546 | 5,544 | 18 |
| G&A Expenses, Including Stock-Based Compensation | \$ 9,836 | \$ 9,006 | 9 | \$ 12,336 | \$ 22,172 | \$ 19,494 | 14 |
| (U.S. Dollars Per bbl Sales Volumes NAR) | | | | | | | |
| G&A Expenses Before Stock-Based Compensation | \$ 3.77 | \$ 4.25 | (11) | \$ 3.80 | \$ 3.79 | \$ 3.98 | (5) |
| G&A Stock-Based Compensation Expense | 0.96 | 1.12 | (14) | 2.23 | 1.59 | 1.58 | 1 |
| G&A Expenses, Including Stock-Based Compensation | \$ 4.73 | \$ 5.37 | (12) | \$ 6.03 | \$ 5.38 | \$ 5.56 | (3) |

For the three and six months ended June 30, 2022, G&A expenses before stock-based compensation increased by 10% to \$7.8 million and 12% to \$15.6 million, respectively, primarily due to higher costs for special projects and increase in travel expenses compared to corresponding periods of 2021. On a per bbl basis, G&A expenses before stock-based compensation decreased by \$0.48 and \$0.19 per bbl to \$3.77 and \$3.79 per bbl, respectively, primarily due higher sales volumes in 2022 compared to the corresponding periods of 2021. When compared to prior quarter, G&A expenses before stock-based compensation and on per bbl basis were comparable.

G&A expenses after stock-based compensation for the three and six months ended June 30, 2022, increased by 9% per bbl and 14% per bbl respectively, due to higher share price compared to the corresponding periods of 2021. On a per bbl basis, G&A expenses after stock-based compensation decreased by \$0.64 and \$0.18 per bbl, respectively, compared to the corresponding periods of 2021, mainly due to higher sales volumes in 2022. Compared to prior quarter, G&A expenses after stock-based compensation decreased by 20% or \$1.30 on a per bbl basis, due to lower stock-based compensation resulting from a lower share price in the second quarter of 2022.

G&A Expenses Before Stock-Based Compensation



Foreign Exchange Gains and Losses

For the three and six months ended June 30, 2022, we had a \$2.7 million loss and \$1.0 million gain, respectively, on foreign exchange compared to a \$0.1 million and \$13.2 million loss, respectively, for the corresponding periods of 2021. Accounts receivable, taxes receivable, deferred income taxes, accounts payable, and prepaid equity forward (“PEF”) are considered monetary items and require translation from local currency to U.S. dollar functional currency at each balance sheet date. This translation was the primary source of the foreign exchange gains and losses in the periods.

The following table presents the change in the U.S. dollar against the Colombian peso and Canadian dollar for the three and six months ended June 30, 2022, and 2021:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------------|-------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Change in the U.S. dollar against the Colombian peso | strengthened by 10% | strengthened by 1% | strengthened by 4% | strengthened by 9% |
| Change in the U.S. dollar against the Canadian dollar | strengthened by 3% | weakened by 1% | strengthened by 2% | weakened by 3% |

Financial Instrument Gains and Losses

The following table presents the nature of our derivative and other financial instruments gains and losses for the three and six months ended June 30, 2022, and 2021:

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|------------------|---------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Commodity price derivatives loss | \$ 5,172 | \$ 21,217 | \$ 26,611 | \$ 44,849 |
| Foreign currency derivatives loss | — | 22 | — | 88 |
| Derivative instruments loss | \$ 5,172 | \$ 21,239 | \$ 26,611 | \$ 44,937 |
| Unrealized PetroTal investment loss (gain) | \$ — | \$ 2,614 | \$ — | \$ (3,861) |
| Loss on sale of PetroTal shares | — | — | — | 5,070 |
| Other financial instruments loss | \$ — | \$ 2,614 | \$ — | \$ 1,209 |

Income Tax Expense

| (Thousands of U.S. Dollars) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------|-----------------------------|-----------------|---------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Income (loss) before income tax | \$ 91,638 | \$ (8,438) | \$ 145,297 | \$ (37,209) |
| Current income tax expense | \$ 25,425 | \$ (14) | \$ 46,252 | \$ (14) |
| Deferred income tax expense | 13,241 | 9,203 | 31,954 | 17,854 |
| Total income tax expense | \$ 38,666 | \$ 9,189 | \$ 78,206 | \$ 17,840 |
| Effective tax rate | 42 % | (109)% | 54 % | (48)% |

Current income tax expense was \$46.3 million for the six months ended June 30, 2022, compared to a small recovery in the corresponding period in 2021, primarily due to an increase in taxable income. The deferred income tax expense for the six months ended June 30, 2022, was also the result of tax depreciation being higher than accounting depreciation and the use of tax losses to offset taxable income in Colombia. The deferred income tax expense in the comparative period of 2021 resulted from excess tax depreciation compared with accounting depreciation and the use of tax losses to offset taxable income in Colombia.

For the six months ended June 30, 2022, the difference between the effective tax rate of 54% and the 35% Colombian tax rate was primarily due to \$26.6 million of hedging loss and \$24.3 million of financing cost related to senior notes, and \$21.5 million of corporate costs, which were incurred in a jurisdictions where no tax benefit is recognized.

For the six months ended June 30, 2021, the difference between the effective tax rate of (48)% and the 31% Colombian tax rate was primarily due to \$44.9 million hedging loss, \$27.7 million financing cost related to Senior Notes and foreign exchange loss, which were incurred in a jurisdictions where no tax benefit is recognized. These were partially offset by a decrease in valuation allowance.

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

| | Second Quarter 2022 Compared with First Quarter 2022 | % change | Second Quarter 2022 Compared with Second Quarter 2021 | % change | Six Months Ended June 30, 2022 Compared with Six Months Ended June 30, 2021 | % change |
|---|---|-------------|--|-------------|--|-------------|
| (Thousands of U.S. Dollars) | | | | | | |
| Net income (loss) for the comparative period | \$ 14,119 | | \$ (17,627) | | \$ (55,049) | |
| Increase (decrease) due to: | | | | | | |
| Sales price | 28,371 | | 86,159 | | 154,176 | |
| Sales volumes | 2,845 | | 23,003 | | 34,062 | |
| Expenses: | | | | | | |
| Operating | (4,559) | | (13,247) | | (17,511) | |
| Transportation | 321 | | 489 | | 254 | |
| Cash G&A | (68) | | (714) | | (1,676) | |
| Net lease payments | 292 | | 382 | | 467 | |
| Severance | — | | — | | — | |
| Interest, net of amortization of debt issuance costs | 178 | | 1,978 | | 3,668 | |
| Realized foreign exchange | 2,733 | | 1,233 | | 199 | |
| Cash settlements on derivative instruments | (9,200) | | 6,509 | | 11,317 | |
| Current taxes | (4,598) | | (25,439) | | (46,266) | |
| Net change in funds flow from operations ⁽¹⁾ from comparative period | 16,315 | | 80,353 | | 138,690 | |
| Expenses: | | | | | | |
| Depletion, depreciation and accretion | (1,253) | | (13,289) | | (22,934) | |
| Goodwill impairment | — | | — | | — | |
| Asset impairment | — | | — | | — | |
| Deferred tax | 5,472 | | (4,038) | | (14,100) | |
| Amortization of debt issuance costs | (244) | | (237) | | (243) | |
| Stock-based compensation | 2,568 | | (116) | | (1,002) | |
| Derivative instruments gain or loss, net of settlements on derivative instruments | 25,467 | | 9,558 | | 7,009 | |
| Other financial instruments loss | — | | 2,614 | | 1,209 | |
| Unrealized foreign exchange | (9,180) | | (3,864) | | 13,978 | |
| Other loss | — | | — | | — | |
| Net lease payments | (292) | | (382) | | (467) | |
| Net change in net income (loss) | 38,853 | | 70,599 | | 122,140 | |
| Net income for the current period | \$ 52,972 | 275% | \$ 52,972 | 401% | \$ 67,091 | 222% |

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

Capital expenditures during the three months ended June 30, 2022 were \$65.2 million:

(Millions of U.S. Dollars)

| | |
|--------------------------|----------------|
| Colombia: | |
| Exploration | \$ 10.0 |
| Development: | |
| Drilling and Completions | 34.6 |
| Facilities | 4.7 |
| Other | 12.6 |
| | 61.9 |
| Corporate & Ecuador | 3.3 |
| | \$ 65.2 |

During the three months ended June 30, 2022, we commenced drilling the following wells in Colombia:

| | |
|-------------|--|
| | Number of wells (Gross and Net) |
| Exploration | 1.0 |
| Development | 9.0 |
| Service | 4.0 |
| | 14.0 |

We spud one exploration, nine development and four water injection wells of which 11 were in the Midas Block, and three were in the Chaza Block. Of the wells spud during the quarter 10 were completed, three were in-progress and one exploration well was dry as of June 30, 2022.

Liquidity and Capital Resources

| (Thousands of U.S. Dollars) | As at | | |
|------------------------------------|----------------------|---------------------|------------------------------|
| | June 30, 2022 | % Change | December 31, 2021 |
| Cash and Cash Equivalents | \$ 108,558 | 316 | \$ 26,109 |
| Revolving Credit Facility | \$ — | (100) | \$ 67,500 |
| 6.25% Senior Notes | \$ 300,000 | — | \$ 300,000 |
| 7.75% Senior Notes | \$ 300,000 | — | \$ 300,000 |

We believe that our capital resources, including cash on hand, cash generated from operations and available borrowings under new credit facility which we are planning to obtain will provide us with sufficient liquidity to meet our strategic objectives and planned capital program for the next 12 months and beyond, given current oil price trends and production levels. We plan to replace our prior credit facility with a smaller one to align with our current business objectives. We may also access capital markets to pursue financing and refinance our Senior Notes. In accordance with our investment policy, available cash balances are held in our primary cash management banks or may be invested in U.S. or Canadian government-backed federal, provincial or state securities or other money market instruments with high credit ratings and short-term liquidity. We believe that our current financial position provides us with the flexibility to respond to both internal growth opportunities and those available through acquisitions. We intend to pursue growth opportunities and acquisitions from time to time, which may require significant capital, be located in basins or countries beyond our current operations, involve joint ventures, or be sizable as compared to our current assets and operations.

As at June 30, 2022, the borrowing base of our Senior Secured Credit Facility (the “revolving credit facility”) was \$150 million, with \$125 million readily available and \$25 million subject to approval by majority lenders. During the three months ended June 30, 2022, we completely paid-off the outstanding balance on the revolving credit facility and subsequent to the quarter, the revolving credit facility was terminated. At June 30, 2022, and the date of termination, respectively, we were in compliance with all applicable covenants.

At June 30, 2022, we had a \$300.0 million aggregate principal amount of 6.25% Senior Notes due 2025 and a \$300.0 million aggregate principal amount of 7.75% Senior Notes due 2027 outstanding. An event of default under the revolving credit facility would result in a default under the indentures governing the senior notes, which could allow the noteholders to require us to repurchase all of the outstanding Senior Notes.

In accordance with our investment policy, available cash balances are held in our primary cash management banks or invested in U.S. or Canadian government-backed federal, provincial, or state securities or other money market instruments with high credit ratings and short-term liquidity.

Derivative Positions

All our outstanding commodity price derivatives expired on June 30, 2022 and as at June 30, 2022, we had no outstanding foreign exchange or commodity price derivative positions.

Cash Flows

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

| (Thousands of U.S. Dollars) | Six Months Ended June 30, | |
|---|---------------------------|-----------------|
| | 2022 | 2021 |
| Sources of cash and cash equivalents: | | |
| Net income (loss) | \$ 67,091 | \$ (55,049) |
| Adjustments to reconcile net loss to Adjusted EBITDA ⁽¹⁾ and funds flow from operations ⁽¹⁾ | | |
| DD&A expenses | 83,179 | 60,245 |
| Interest expense | 24,322 | 27,747 |
| Income tax expense | 78,206 | 17,840 |
| Other loss | — | — |
| Non-cash lease expenses | 1,158 | 814 |
| Lease payments | (732) | (855) |
| Unrealized foreign exchange (gain) loss | (498) | 13,480 |
| Stock-based compensation expense | 6,546 | 5,544 |
| Unrealized derivative instruments loss | 219 | 7,228 |
| Other financial instruments loss | — | 1,209 |
| Adjusted EBITDA ⁽¹⁾ | 259,491 | 78,203 |
| Current income tax (expense) recovery | (46,252) | 14 |
| Contractual interest and other financing expenses | (22,304) | (25,972) |
| Funds flow from operations ⁽¹⁾ | 190,935 | 52,245 |
| Proceeds from issuance of exercise of stock options | 1,283 | 8 |
| Proceeds from issuance of shares of Common Stock, net of issuance costs | 2 | — |
| Proceeds from disposition of investment, net of transaction costs | — | 14,632 |
| Net changes in assets and liabilities from operating activities | 56,329 | 27,157 |
| Changes in non-cash investing working capital | 10,964 | 3,176 |
| | 259,513 | 97,218 |
| Uses of cash and cash equivalents: | | |
| Additions to property, plant and equipment | (106,682) | (74,811) |
| Repayment of debt | (67,525) | (15,126) |
| Settlement of asset retirement obligations | (242) | (248) |
| Lease payments | (1,261) | (513) |
| Foreign exchange loss on cash, cash equivalents and restricted cash and cash equivalents | (680) | (488) |
| | (176,390) | (91,186) |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents | \$ 83,123 | \$ 6,032 |

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

One of the primary sources of variability in our cash flows from operating activities is the fluctuation in oil prices. Sales volume changes and costs related to operations and debt service also impact cash flows. Our cash flows from operating activities are also impacted by foreign currency exchange rate changes. During the six months ended June 30, 2022, funds flow from operations increased by 265% compared to the corresponding period of 2021 primarily due to a significant increase in Brent price and increase in production, which were partially offset by higher Castilla and Vasconia differentials and an increase in operating expenses and cash settlements on derivative instruments.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are disclosed in Item 7 of our 2021 Annual Report on Form 10-K and have not changed materially since the filing of that document.

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

Commodity price risk

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

Foreign currency risk

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

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

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. We are exposed to interest rate fluctuations on our revolving credit facility, which bears floating rates of interest. At June 30, 2022, our outstanding balance under revolving credit facility was nil (December 31, 2021 - \$67.5 million). Subsequent to the quarter, the revolving credit facility was terminated and the Company is no longer exposed to fluctuations on market interest rates.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or Exchange Act). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by Gran Tierra in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, as required by Rule 13a-15(b) of the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that Gran Tierra's disclosure controls and procedures were effective as of June 30, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II - Other Information

Item 1. *Legal Proceedings*

See Note 9 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for any material developments with respect to matters previously reported in our Annual Report on Form 10-K for the year ended December 31, 2021, and any material matters that have arisen since the filing of such report.

Item 1A. *Risk Factors*

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to information set forth in this quarterly report on Form 10-Q, including in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, you should carefully read and consider the factors set out in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021. These risk factors could materially affect our business, financial condition and results of operations. The unprecedented nature of the current pandemic and the volatility in the worldwide economy and oil and gas industry may make it more difficult to identify all the risks to our business, results of operations and financial condition and the ultimate impact of identified risks.

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

None.

Item 6. Exhibits

| Exhibit No. | Description | Reference |
|--------------------|---|--|
| 3.1 | Certificate of Incorporation. | Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.2 | Bylaws of Gran Tierra Energy Inc. | Incorporated by reference to Exhibit 3.4 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.3 | Certificate of Retirement dated July 9, 2018 | Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on July 9, 2018 (SEC File No. 001-34018). |
| 3.4 | Amendment No.1 to Bylaws of Gran Tierra Energy Inc. | Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on August 4, 2021 (SEC File No. 001-34018). |
| 10.1# | Amended and Rotated Gran Tierra Energy Inc. 2007 Equity Incentive Plan | Incorporated by reference to the Appendix of the Definitive Proxy Statement filed with the SEC on March 25, 2022 (SEC File No. 001-34018). |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith. |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith. |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith. |

101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

101.SCH Inline XBRL Taxonomy Extension Schema Document

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

104.The cover page from Gran Tierra Energy Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL (included within the Exhibit 101 attachments).

Management contract or compensatory plan or arrangement.

SIGNATURES

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

GRAN TIERRA ENERGY INC.

Date: August 8, 2022

/s/ Gary S. Guidry

By: Gary S. Guidry

President and Chief Executive Officer

(Principal Executive Officer)

Date: August 8, 2022

/s/ Ryan Ellson

By: Ryan Ellson

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)