Spirit Airlines, Inc.
Form 424B5
July 28, 2015
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**Filed Pursuant to Rule 424(B)(5)**
**Registration No. 333-202260**

**The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED JULY 28, 2015**

**PRELIMINARY PROSPECTUS SUPPLEMENT**

**(To Prospectus Dated February 24, 2015)**

# $576,581,000

# 2015-1 Pass Through Trusts

# Pass Through Certificates, Series 2015-1

Spirit Airlines, Inc. ( Spirit ) is creating two separate pass through trusts, one of which will issue Spirit Airlines Class A Pass Through Certificates, Series 2015-1, and the other of which will issue Spirit Airlines Class B Pass Through Certificates, Series 2015-1.

Each Certificate will represent an interest in the assets of the related pass through trust. The proceeds from the sale of the Certificates will initially be held in escrow and will thereafter be used by the related pass through trust to acquire the related series of equipment notes to be issued by Spirit on a full recourse basis. Payments on the equipment notes held in each pass through trust will be passed through to the Certificateholders of such trust. Distributions on the Certificates will be subject to certain subordination provisions described herein. The Certificates do not represent interests in, or obligations of, Spirit or any of its affiliates.

The Class A Certificates will rank generally senior to the Class B Certificates, subject to the distribution provisions described herein.

The equipment notes expected to be held by each pass through trust will be issued for each of (a) twelve new Airbus A321-200 aircraft currently scheduled for delivery to Spirit during the period from October 2015 to December 2016 and (b) three new Airbus A320-200 aircraft currently scheduled for delivery to Spirit during the period from June 2016 to December 2016. The equipment notes issued for each aircraft will be secured by a security interest in such aircraft. Interest on the issued and outstanding equipment notes will be payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2016, and principal on such equipment notes is scheduled for payment on April 1 and October 1 of certain years, commencing on October 1, 2016.

Natixis, acting via its New York Branch, will provide a separate liquidity facility for each of the Class A Certificates and the Class B Certificates, in each case in an amount sufficient to make three semiannual interest distributions on the outstanding balance of the Certificates of such class.

The Certificates will not be listed on any national securities exchange.

**Investing in the Certificates involves risks. See Risk Factors beginning on page S-26.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| Pass Through Certificates | Aggregate Face Amount | Interest Rate | Final Expected Distribution Date | Price to Public(1) |
|---|---|---|---|---|
| Class A | $ 455,622,000 | % | April 1, 2028 | 100% |
| Class B | $ 120,959,000 | % | April 1, 2024 | 100% |

(1) Plus accrued interest, if any, from the date of issuance.

The underwriters will purchase all of the Certificates if any are purchased. The aggregate proceeds from the sale of the Certificates will be $576,581,000. Spirit will pay the underwriters a commission of $ . Delivery of the Certificates in book-entry form will be made on or about , 2015 against payment in immediately available funds.

*Joint Structuring Agents and Joint Lead Bookrunners*

**Citigroup** **Morgan Stanley**

*Bookrunner*

**Credit Suisse**

The date of this prospectus supplement is , 2015.

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**We have not, and the Underwriters have not, authorized anyone to provide you with information other than the information contained in this prospectus supplement, the accompanying prospectus, any related free writing prospectus issued by us (which we refer to as a *company free writing prospectus*) and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus or to which we have referred you. This prospectus supplement, the accompanying prospectus and any related company free writing prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement, the accompanying prospectus and any related company free writing prospectus in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer or solicitation of an offer in such jurisdiction. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and any related company free writing prospectus or any document incorporated by reference is accurate as of any date other than the date on the front cover of the applicable document. Neither the delivery of this prospectus supplement, the accompanying prospectus and any related company free writing prospectus nor any distribution of securities pursuant to this prospectus supplement and the accompanying prospectus shall, under any circumstances, create any implication that there has been no change in our business, financial condition, results of operations or prospects, or in the affairs of the Trusts, the Depositary or the Liquidity Provider, since the date of this prospectus supplement.**

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## CERTAIN VOLCKER RULE CONSIDERATIONS

Each Trust is structured so as to, immediately following the issuance of the related class of Certificates pursuant to the applicable Pass Through Trust Agreement, not constitute a covered fund for purposes of regulations adopted under Section 13 of the Bank Holding Company Act of 1956, as amended, commonly known as the *Volcker Rule*. In reaching this conclusion, although other statutory or regulatory exemptions or exclusions from registration as an investment company under the Investment Company Act of 1940, as amended (the *Investment Company Act* ), may be available to each Trust, each Trust is relying on the exclusion from the definition of investment company contained in Section 3(c)(5) of the Investment Company Act.

## PRESENTATION OF INFORMATION

These offering materials consist of two documents: (a) this prospectus supplement, which describes the terms of the Certificates that we are currently offering and information about us, and (b) the accompanying prospectus, which provides general information about us and our pass through certificates, some of which may not apply to the Certificates that we are currently offering. This prospectus supplement contains information that supplements or replaces any inconsistent information included in the accompanying prospectus. To the extent the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference in this prospectus supplement. See About this Prospectus in the accompanying prospectus.

In this prospectus supplement, references to Spirit, the Company, we, us and our refer to Spirit Airlines, Inc. and our wholly-owned subsidia

We have given certain capitalized terms specific meanings for purposes of this prospectus supplement. The Index of Defined Terms attached as Appendix I to this prospectus supplement lists the page in this prospectus supplement on which we have defined each such term.

At varying places in this prospectus supplement, we refer you to other sections for additional information by indicating the caption heading of such other sections. The page on which each principal caption included in this prospectus supplement can be found is listed in the foregoing Table of Contents. All such cross-references in this prospectus supplement are to captions contained in this prospectus supplement and not the accompanying prospectus, unless otherwise stated.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, the documents incorporated by reference into this prospectus supplement and the accompanying prospectus or any related company free writing prospectus and statements made by our representatives from time to time include 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* ). We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved, if at all. Forward-looking statements are based on information available at the time those statements are made and/or management s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- the competitive environment in our industry;
- our ability to keep costs low;
- changes in our fuel cost;
- our ability to hedge fuel requirements;
- restrictions on or increased taxes applicable to non-ticket revenues;
- the impact of worldwide economic conditions, including the impact of economic cycles or downturns on customer travel behavior;
- actual or threatened terrorist attacks, global instability and potential military actions or activities;
- external conditions, including air traffic congestion, weather and outbreak of disease;
- restrictions on third-party membership programs;
- availability of air travel substitutes;
- labor disputes, strikes and other labor-related disruptions;
- aircraft-related fixed obligations;
- cash balances, operating cash flows and liquidity;

our aircraft utilization rate;

maintenance costs;

lack of marketing alliances;

government regulation;

our ability to fulfill our growth strategy;

our reliance on technology and automated systems and the risks associated with cyber security and changes made to those systems;

use of personal data;

ability to generate non-ticket revenues;

operational disruptions;

the concentration of our revenue from South Florida;

our reliance on third-party vendors and partners;

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- our reliance on a single fuel provider;
- an aircraft accident or incident;
- negative publicity;
- our aircraft and engine suppliers;
- changes in the U.S., Caribbean and Latin American markets;
- insurance costs;
- environmental regulations;
- ability to attract and retain qualified personnel;
- loss of key personnel; and
- the other risk factors described below under the heading Risk Factors.

The words will, should, could, would, plan, believe, may, estimate, continue, anticipate, intend, expect, predict, pot
expressions, as they relate to our company, our business and our management, are intended to identify forward-looking statements. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus supplement may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable law. If we update one or more forward-looking statements, no inference should be drawn that we will make d>

Long-Term Liabilities

Long-term debt (Notes 5 and 10)

397,568

256,542

Deferred tax liabilities
26,467

28,417

Asset retirement obligation
33,405

31,241

Equity compensation award liability (Note 10)
5,724

11,135

Other long-term liabilities
9,610

8,980

Total Long-Term Liabilities
472,774

336,315

Contingencies (Note 9)

Shareholders' Equity

Common Stock (Note 6) (384,959,730 and 385,191,042 shares of Common Stock and 5,908,065 and 6,111,665 exchangeable shares, par value $0.001 per share, issued and outstanding as at March 31, 2018, and December 31, 2017, respectively)
10,295

10,295

Additional paid in capital
1,326,687

1,327,244

Deficit
(383,343
)

(401,204
)
Total Shareholders’ Equity
953,639

936,335

Total Liabilities and Shareholders’ Equity
$
1,606,788

$
1,429,619

(See notes to the condensed consolidated financial statements)

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Operating Activities | | |
| Net income | $17,861 | $12,771 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depletion, depreciation and accretion (Note 3) | 39,461 | 26,593 |
| Asset impairment | — | 283 |
| Deferred tax expense | 13,482 | 11,379 |
| Stock-based compensation (Note 6) | 3,309 | 1,203 |
| Amortization of debt issuance costs (Note 5) | 670 | 605 |
| Cash settlement of restricted share units | (120) | (318) |
| Unrealized foreign exchange gain | (1,044) | (2,819) |
| Financial instruments loss (gain) (Note 10) | 6,946 | (5,439) |
| Cash settlement of financial instruments (Note 10) | (5,817) | 768 |
| Cash settlement of asset retirement obligation | (192) | (13) |
| Net change in assets and liabilities from operating activities (Note 11) | (3,464) | 4,930 |
| Net cash provided by operating activities | 71,092 | 49,943 |
| | | |
| Investing Activities | | |
| Additions to property, plant and equipment (Note 3) | (72,694) | (46,160) |
| Deposit received for sale of Brazil business unit | — | 3,500 |
| Changes in non-cash investing working capital | 1,957 | (1,797) |
| Net cash used in investing activities | (70,737) | (44,457) |
| | | |
| Financing Activities | | |
| Proceeds from bank debt, net of issuance costs (Note 5) | 4,988 | 18,471 |
| Repayment of bank debt (Note 5) | (153,000) | (23,000) |
| Proceeds exercise of stock options (Note 6) | 74 | — |
| Repurchase of shares of Common Stock (Note 6) | (1,194) | — |
| Proceeds from issuance of Senior Notes, net of issuance costs (Note 5) | 288,368 | — |
| Net cash provided by (used in) financing activities | 139,236 | (4,529) |
| | | |
| Foreign exchange gain on cash, cash equivalents and restricted cash and cash equivalents | 663 | 474 |
| | | |
| Net increase in cash, cash equivalents and restricted cash and cash equivalents | 140,254 | 1,431 |
| Cash, cash equivalents and restricted cash and cash equivalents, beginning of period (Note 11) | 26,678 | 43,267 |
| Cash, cash equivalents and restricted cash and cash equivalents, end of period (Note 11) | $166,932 | $44,698 |

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 March 31, 2018 | Three Months Ended March 31, 2017 |
|---|---|---|
| Share Capital | | |
| Balance, beginning of period | $ 10,295 | $ 10,303 |
| Balance, end of period | 10,295 | 10,303 |
| | | |
| Additional Paid in Capital | | |
| Balance, beginning of period | 1,327,244 | 1,342,656 |
| Exercise of stock options (Note 6) | 74 | — |
| Stock-based compensation (Note 6) | 563 | 709 |
| Repurchase of Common Stock (Note 6) | (1,194 ) | — |
| Balance, end of period | 1,326,687 | 1,343,365 |
| | | |
| Deficit | | |
| Balance, beginning of period | (401,204 ) | (493,972 ) |
| Net income (loss) | 17,861 | 12,771 |
| Cumulative adjustment for accounting change related to tax reorganizations | — | 124,476 |
| Balance, end of period | (383,343 ) | (356,725 ) |
| | | |
| Total Shareholders' Equity | $ 953,639 | $ 996,943 |

(See notes to the condensed consolidated financial statements)

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

1. Description of Business

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

2. Significant Accounting Policies

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

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

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

Recently Adopted Accounting Pronouncements

Revenue from Contracts with Customers

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

a) Significant Accounting Policy

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

The Company evaluates its arrangement with third parties and partners to determine if the Company acts as a principal or an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in transaction, then the revenue is recognized on a net-basis, only reflecting the fee realized by the Company from the transaction.

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

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

b) Significant Judgments

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

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

3. Segment and Geographic Reporting

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

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

| | Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | All Other | Total |
| Oil and natural gas sales | $138,228 | $— | $138,228 |
| Depletion, depreciation and accretion | 38,499 | 962 | 39,461 |
| General and administrative expenses | 6,809 | 4,351 | 11,160 |
| Income (loss) before income taxes | 61,151 | (17,519) | 43,632 |
| Segment capital expenditures | 72,561 | 133 | 72,694 |

| | Three Months Ended March 31, 2017 | | |
|---|---|---|---|
| (Thousands of U.S. Dollars) | Colombia | All Other | Total |
| Oil and natural gas sales | $90,464 | $4,195 | $94,659 |
| Depletion, depreciation and accretion | 24,935 | 1,658 | 26,593 |
| General and administrative expenses | 4,832 | 3,880 | 8,712 |
| Income (loss) before income taxes | 37,144 | (5,577 ) | 31,567 |

| | | | |
|---|---|---|---|
| Segment capital expenditures | 42,840 | 3,320 | 46,160 |

| (Thousands of U.S. Dollars) | As at March 31, 2018<br>Colombia | All Other | Total |
|---|---|---|---|
| Property, plant and equipment | $1,132,626 | $1,561 | $1,134,187 |
| Goodwill | 102,581 | — | 102,581 |
| All other assets | 182,440 | 187,580 | 370,020 |
| Total Assets | $1,417,647 | $189,141 | $1,606,788 |

| (Thousands of U.S. Dollars) | As at December 31, 2017<br>Colombia | All Other | Total |
|---|---|---|---|
| Property, plant and equipment | $1,096,833 | $2,391 | $1,099,224 |
| Goodwill | 102,581 | — | 102,581 |
| All other assets | 176,980 | 50,834 | 227,814 |
| Total Assets | $1,376,394 | $53,225 | $1,429,619 |

4. Property, Plant and Equipment

| (Thousands of U.S. Dollars) | As at March 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Oil and natural gas properties | | |
| Proved | $2,896,700 | $2,810,796 |
| Unproved | 452,865 | 464,948 |
| | 3,349,565 | 3,275,744 |
| Other | 23,633 | 26,401 |
| | 3,373,198 | 3,302,145 |
| Accumulated depletion, depreciation and impairment | (2,239,011 ) | (2,202,921 ) |
| | $1,134,187 | $1,099,224 |

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

5. Debt and Debt Issuance Costs

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

| (Thousands of U.S. Dollars) | As at March 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Senior notes | $300,000 | $— |
| Convertible notes | 115,000 | 115,000 |
| Revolving credit facility | — | 148,000 |
| Unamortized debt issuance costs | (17,432 ) | (6,458 ) |
| Long-term debt | $397,568 | $256,542 |

Senior Notes

On February 15, 2018, Gran Tierra Energy International Holdings Ltd. ("GTEIH"), an indirect, wholly owned subsidiary of the Company, issued $300 million of 6.25% Senior Notes due 2025 (the "Senior Notes"). The Senior Notes are fully and unconditionally guaranteed by the Company and certain subsidiaries of the Company that guarantee its revolving credit facility. Net proceeds from the sale of the Senior Notes were $288.4 million, after deducting the initial purchasers' discounts and commission and the offering expenses payable by the Company.

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

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

Interest Expense

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

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Contractual interest and other financing expenses | $4,825 | $2,490 |
| Amortization of debt issuance costs | 670 | 605 |
| | $5,495 | $3,095 |

6. Share Capital

The Company’s authorized share capital consists of 595,000,002 shares of capital stock, of which 570 million are designated as Common Stock, par value $0.001 per share, 25 million are designated as Preferred Stock, par value $0.001 per share, one share is designated as Special A Voting Stock, par value $0.001 per share, and one share is designated as Special B Voting Stock, par value $0.001 per share.

| | Shares of Common Stock | Exchangeable Shares of Gran Tierra Exchangeco Inc. | Exchangeable Shares of Gran Tierra Goldstrike Inc. |
|---|---|---|---|
| Balance, December 31, 2017 | 385,191,042 | 4,422,776 | 1,688,889 |
| Options exercised | 30,000 | — | — |
| Shares repurchased and canceled | (464,912 ) | — | — |
| Exchange of exchangeable shares | 203,600 | (203,600 ) | — |
| Balance, March 31, 2018 | 384,959,730 | 4,219,176 | 1,688,889 |

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

Equity Compensation Awards

The following table provides information about performance stock units (“PSUs”), deferred share units (“DSUs”), restricted stock units (“RSUs”) and stock option activity for the three months ended March 31, 2018:

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| | PSUs | DSUs | RSUs | Stock Options | |
|---|---|---|---|---|---|
| | Number of Outstanding Share Units | Number of Outstanding Share Units | Number of Outstanding Share Units | Number of Outstanding Stock Options | Weighted Average Exercise Price/Stock Option ($) |
| Balance, December 31, 2017 | 6,131,951 | 455,768 | 122,090 | 8,960,692 | 3.65 |
| Granted | 3,305,486 | 67,926 | — | 1,890,413 | 2.47 |
| Exercised | — | — | (48,600) | (30,000) | (2.46) |
| Forfeited | (108,195) | — | (1,822) | (349,878) | (5.17) |
| Expired | — | — | — | (8,334) | (3.50) |
| Balance, March 31, 2018 | 9,329,242 | 523,694 | 71,668 | 10,462,893 | 3.39 |

Stock-based compensation expense for the three months ended March 31, 2018, was $3.3 million and was primarily recorded in general and administrative ("G&A") expenses (three months ended March 31, 2017 - $1.2 million).

At March 31, 2018, there was $22.0 million (December 31, 2017 - $13.7 million) of unrecognized compensation cost related to unvested PSUs, RSUs and stock options which is expected to be recognized over a weighted average period of 2.0 years.

Net Income per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of Common Stock and exchangeable shares issued and outstanding during each period. Diluted net income per share is similarly calculated except that the common shares outstanding for the period is increased using the treasury stock method to reflect the potential dilution that could occur if outstanding stock awards were vested at the end of the applicable period plus potentially issuable shares on conversion of the convertible notes. Anti-dilutive shares represent potentially dilutive securities that are excluded from the computation of diluted income or loss per share as their impact would be anti-dilutive.

Weighted Average Shares Outstanding

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Weighted average number of common and exchangeable shares outstanding | 391,294,042 | 399,007,086 |
| Shares issuable pursuant to stock options | 867,427 | 635,484 |
| Shares assumed to be purchased from proceeds of stock options | (782,456) | (596,456) |
| Weighted average number of diluted common and exchangeable shares outstanding | 391,379,013 | 399,046,114 |

For the three months ended March 31, 2018, 8,599,422 options, on a weighted average basis, (three months ended March 31, 2017 - 9,210,869 options) were excluded from the diluted income per share calculation as the options were anti-dilutive. Shares issuable upon conversion of the 5.00% Convertible Notes due 2021 ("Convertible Notes") were anti-dilutive and excluded from the diluted income per share calculation.

7. Revenue

Most of the Company's revenues are from oil sales at prices which reflect the blended prices received upon shipment by the purchaser at defined sales points or are defined by contract relative to ICE Brent and adjusted for quality each month. For the three months ended March 31, 2018, 100% (three months ended March 31, 2017 - 100%) of the Company's revenue resulted from oil sales. In the three months ended March 31, 2018, quality and transportation discounts were 16% of the ICE Brent price (three months ended March 31, 2017 - 22%). During the three months ended March 31, 2018, the Company's production was sold primarily to four major customers in Colombia (three months ended March 31, 2017 - three).

As at March 31, 2018, accounts receivable included $7.1 million of accrued sales revenue which related to March 2018 production (December 31, 2017 - $11.1 million which related to December 31, 2017 production). December 31, 2017 accrued sales revenue was collected during the three months ended March 31, 2018 without significant adjustment to revenue for that period.

8. Taxes

The Company's effective tax rate was 59% in the three months ended March 31, 2018, compared with 60% in the comparable period in 2017. Current income tax expense was higher in the three months ended March 31, 2018, compared with the corresponding period in 2017, primarily as a result of higher taxable income in Colombia. The deferred income tax expense of $13.5 million for the three months ended March 31, 2018, was primarily due to excess tax depreciation compared with accounting depreciation in Colombia.

For the three months ended March 31, 2018, the difference between the effective tax rate of 59% and the 21% U.S. statutory rate was primarily due to an increase to the impact of foreign taxes, valuation allowance, other permanent differences, non-deductible third party royalty in Colombia, stock based compensation, other local taxes and foreign currency translation.

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

9. Contingencies

The Agencia Nacional de Hidrocarburos (National Hydrocarbons Agency) (“ANH") and Gran Tierra are engaged in ongoing discussions regarding the interpretation of whether certain transportation and related costs are eligible to be deducted in the calculation of an additional royalty (the "HPR royalty"). Based on the Company's understanding of the ANH's position, the estimated compensation which would be payable if the ANH’s interpretation is correct could be up to $51.8 million as at March 31, 2018. At this time no amount has been accrued in the interim unaudited condensed consolidated financial statements as Gran Tierra does not consider it probable that a loss will be incurred.

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

Letters of credit and other credit support

At March 31, 2018, the Company had provided letters of credit and other credit support totaling $76.5 million (December 31, 2017 - $76.0 million) as security relating to work commitment guarantees contained in exploration contracts and other capital or operating requirements.

10. Financial Instruments and Fair Value Measurement

Financial Instruments

At March 31, 2018, the Company’s financial instruments recognized in the balance sheet consisted of: cash and cash equivalents; restricted cash and cash equivalents; accounts receivable; investments; derivatives, accounts payable and accrued liabilities, long-term debt and equity compensation award liability.

Fair Value Measurement

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

The fair value of the short-term portion of the Company's investment in Sterling Resources Ltd. ("Sterling") was estimated using quoted prices at March 31, 2018 and the foreign exchange rate at that time. The fair value of the long-term portion of the investment restricted by escrow conditions was estimated using observable and unobservable inputs; factors that were evaluated included quoted market prices, precedent comparable transactions, risk-free rate, measures of market risk volatility, estimates of the Company's and Sterling's costs of capital and quotes from third parties.

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

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

The fair value of derivatives and RSU, PSU and DSU liabilities at March 31, 2018, and December 31, 2017, were as follows:

| (Thousands of U.S. Dollars) | As at March 31, 2018 | As at December 31, 2017 |
|---|---|---|
| Investment - current and long-term assets | $37,229 | $ 44,202 |
| Foreign currency derivative asset | 3,769 | 302 |
| | $40,998 | $ 44,504 |
| | | |
| Commodity price derivative liability | $21,672 | $ 21,151 |
| Equity compensation award liability - current and long-term | 14,357 | 11,430 |
| | $36,029 | $ 32,581 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Commodity price derivative loss (gain) | $4,995 | $(4,703) |
| Foreign currency derivatives gain | (3,970 ) | (736 ) |
| Investment loss | 5,921 | — |
| Financial instruments loss (gain) | $6,946 | $(5,439) |

These gains and losses are presented as financial instrument gains and losses in the interim unaudited condensed consolidated statements of operations and cash flows.

Investment loss for the three months ended March 31, 2018 related to the fair value loss on the Sterling shares Gran Tierra received or subscribed for in connection with the sale of its Peru business unit in December 2017. For the three months ended March 31, 2018, this investment loss was unrealized.

Financial instruments not recorded at fair value include the Senior Notes and the Convertible Notes. At March 31, 2018, the carrying amounts of the Senior Notes and the Convertible Notes were $288.5 million and $111.2 million, respectively, which represented the aggregate principal amount less unamortized debt issuance costs, and the fair values were $292.5 million and $130.0 million, respectively. The fair value of long-term restricted cash and cash equivalents and the revolving credit facility approximated their carrying value because interest rates are variable and reflective of market rates. The fair values of other financial instruments approximate their carrying amounts due to the short-term maturity of these instruments.

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

At March 31, 2018, the fair value of the current portion of the investment, DSU and RSU liability was determined using Level 1 inputs, the fair value of derivatives and PSUs was determined using Level 2 inputs and the fair value of the long-term portion of the investment restricted by escrow conditions was determined using Level 3 inputs. The table below presents the fair value of the long-term portion of the investment:

| | Three Months Ended March 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| (Thousands of U.S. Dollars) | | |
| Opening balance | $ 19,147 | $ — |
| Acquisition | — | 19,091 |
| Unrealized valuation (loss) gain | (2,703 ) | 56 |
| Unrealized foreign exchange loss | (480 ) | — |
| Closing balance | $ 15,964 | $ 19,147 |

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

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

Commodity Price Derivatives

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

At March 31, 2018, the Company had outstanding commodity price derivative positions as follows:

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

Foreign Currency Derivatives

The Company utilizes foreign currency derivatives to manage the variability in cash flows associated with the Company's forecasted Colombian peso ("COP") denominated expenses. At March 31, 2018, the Company had outstanding foreign currency derivative positions as follows:

| Period and type of instrument | Amount Hedged (Millions COP) | U.S. Dollar Equivalent of Amount Hedged (Thousands of U.S. Dollars)[(1)] | Reference | Purchased Call (COP) | Sold Put (COP, Weighted Average) |
|---|---|---|---|---|---|
| Collars: April 1, 2018 to December 31, 2018 | 130,500 | 46,935 | COP | 3,000 | 3,107 |

[(1)] At March 31, 2018 foreign exchange rate.

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11. Supplemental Cash Flow Information

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

| (Thousands of U.S. Dollars) | As at March 31, | | As at December 31, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2017 | 2016 |
| Cash and cash equivalents | $160,474 | $26,716 | $12,326 | $25,175 |
| Restricted cash and cash equivalents - current | 3,294 | 7,663 | 11,787 | 8,322 |
| Restricted cash and cash equivalents - long-term (included in other long-term assets) | 3,164 | 10,319 | 2,565 | 9,770 |
| | $166,932 | $44,698 | $26,678 | $43,267 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Accounts receivable and other long-term assets | $(1,982) | $(2,428) |
| Derivatives | 1,847 | — |
| Inventory | (1,785) | 207 |
| Prepaids | 1,498 | 1,078 |
| Accounts payable and accrued and other long-term liabilities | (2,495) | 4,310 |
| Taxes receivable and payable | (547) | 1,763 |
| Net changes in assets and liabilities from operating activities | $(3,464) | $4,930 |

The following table provides additional supplemental cash flow disclosures:

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Non-cash investing activities: | | |
| Net liabilities related to property, plant and equipment, end of period | $70,108 | $54,875 |

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

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

Financial and Operational Highlights

Key Highlights for the first quarter of 2018[(1)]

- Working interest production before royalties was 35,075 BOEPD, 23% higher compared with 28,481 BOEPD in the first quarter of 2017.
- Production net after royalty ("NAR") was 28,189 BOEPD, 19% higher than the first quarter of 2017. We increased production NAR largely because of production from development activities in the Acordionero Field.
- Oil and natural gas sales volumes were 27,203 BOEPD, 15% higher than the first quarter of 2017.
- Net income was $17.9 million compared with $12.8 million in the first quarter of 2017.
- Funds flow from operations[(3)] increased by 66% to $74.7 million compared with the first quarter of 2017.
- Oil and gas sales per BOE were $56.46, 33% higher than the first quarter of 2017. Brent price increased 23% compared with the first quarter of 2017.
- Operating netback[(3)] per BOE was $42.87 per BOE, 51% higher compared with the first quarter of 2017.
- Operating expenses per BOE were $10.73 per BOE, which was comparable with the first quarter of 2017.
- Transportation expenses per BOE were $2.86 per BOE, 10% lower compared with the first quarter of 2017. The decrease was due to a higher percentage of volumes sold at the wellhead and the increased use of transportation routes that had lower costs than the routes used in the first quarter of 2017.
- General and administrative ("G&A") expenses before stock-based compensation per BOE decreased by 4% to $3.26 per BOE compared with the first quarter of 2017.

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

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| (Thousands of U.S. Dollars, unless otherwise indicated) | Three Months Ended December 31, | Three Months Ended March 31, | | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | % Change |
| Average Daily Volumes (BOEPD) | | | | |
| Consolidated | | | | |
| Working Interest Production Before Royalties | 34,477 | 35,075 | 29,879 | 17 |
| Royalties | (6,114) | (6,886) | (5,089) | 35 |
| Production NAR | 28,363 | 28,189 | 24,790 | 14 |
| (Increase) Decrease in Inventory | (194) | (986) | 18 | — |
| Sales(2) | 28,169 | 27,203 | 24,808 | 10 |
| | | | | |
| Colombia | | | | |
| Working Interest Production Before Royalties | 34,477 | 35,075 | 28,481 | 23 |
| Royalties | (6,114) | (6,886) | (4,868) | 41 |
| Production NAR | 28,363 | 28,189 | 23,613 | 19 |
| (Increase) Decrease in Inventory | (194) | (986) | 7 | — |
| Sales(2) | 28,169 | 27,203 | 23,620 | 15 |
| | | | | |
| Net Income (Loss) | $(40,802) | $17,861 | $12,771 | 40 |
| | | | | |
| Operating Netback | | | | |
| Oil and Natural Gas Sales | $127,179 | $138,228 | $94,659 | 46 |
| Operating Expenses | (31,403) | (26,265) | (23,937) | 10 |
| Transportation Expenses | (5,635) | (6,997) | (6,942) | 1 |
| Operating Netback(3) | $90,141 | $104,966 | $63,780 | 65 |
| | | | | |
| G&A Expenses Before Stock-Based Compensation, Gross | $7,637 | $7,982 | $7,563 | 6 |
| G&A Stock-Based Compensation | 4,501 | 3,178 | 1,149 | 177 |
| General and Administrative ("G&A") Expenses, Including Stock-Based Compensation | $12,138 | $11,160 | $8,712 | 28 |
| | | | | |
| EBITDA(3) | $20,123 | $88,588 | $61,255 | 45 |
| | | | | |
| Adjusted EBITDA(3) | $78,180 | $88,775 | $55,020 | 61 |
| | | | | |
| Funds Flow From Operations(3) | $69,123 | $74,748 | $45,026 | 66 |
| | | | | |
| Capital Expenditures | $75,322 | $72,694 | $46,160 | 57 |

| (Thousands of U.S. Dollars) | As at March 31, 2018 | December 31, 2017 | % Change |
|---|---|---|---|
| Cash and Cash Equivalents | $160,474 | $ 12,326 | — |
| | | | |
| Revolving Credit Facility | $— | $ 148,000 | (100) |

| | | | |
|---|---|---|---|
| Senior Notes | $300,000 | $ — | — |
| Convertible Notes | $115,000 | $ 115,000 | — |

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

(3) Non-GAAP measures

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

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

EBITDA, as presented, is defined as net income or loss adjusted for depletion, depreciation and accretion ("DD&A") expenses, interest expense and income tax recovery or expense. Adjusted EBITDA is EBITDA adjusted for asset impairment, unrealized financial instruments loss or gain, loss on sale of business units and foreign exchange gains or losses. Management uses these supplemental measures to analyze performance and income or loss generated by our principal business activities prior to the consideration of how non-cash items affect that income or loss, and believes that these financial measures are useful supplemental information for investors to analyze our performance and our financial results. A reconciliation from net loss to EBITDA and adjusted EBITDA is as follows:

| | Three Months Ended December 31, | Three Months Ended March 31, | |
|---|---|---|---|
| (Thousands of U.S. Dollars) | 2017 | 2018 | 2017 |
| Net income (loss) | $(40,802) | $17,861 | $12,771 |
| Adjustments to reconcile net income (loss) to EBITDA and adjusted EBITDA | | | |
| DD&A expenses | 38,606 | 39,461 | 26,593 |
| Interest expense | 3,467 | 5,495 | 3,095 |
| Income tax expense | 18,852 | 25,771 | 18,796 |
| EBITDA (non-GAAP) | 20,123 | 88,588 | 61,255 |
| Asset impairment | 275 | — | 283 |
| Unrealized financial instruments loss (gain) | 21,185 | 1,129 | (4,671) |
| Loss on sale of business units | 35,309 | — | — |
| Foreign exchange loss (gain) | 1,288 | (942) | (1,847) |
| Adjusted EBITDA (non-GAAP) | $78,180 | $88,775 | $55,020 |

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

| (Thousands of U.S. Dollars) | Three Months Ended December 31, 2017 | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|---|
| Net income (loss) | $(40,802) | 17,861 | $12,771 |
| Adjustments to reconcile net income (loss) to funds flow from operations | | | |
| DD&A expenses | 38,606 | 39,461 | 26,593 |
| Asset impairment | 275 | — | 283 |
| Deferred tax expense | 8,052 | 13,482 | 11,379 |
| Stock-based compensation expense | 4,840 | 3,309 | 1,203 |
| Amortization of debt issuance costs | 547 | 670 | 605 |
| Cash settlement of RSUs | (30) | (120) | (318) |
| Unrealized foreign exchange loss (gain) | 1,141 | (1,044) | (2,819) |
| Financial instruments loss (gain) | 21,140 | 6,946 | (5,439) |
| Cash settlement of financial instruments | 45 | (5,817) | 768 |
| Loss on sale of business units | 35,309 | — | — |
| Funds flow from operations (non-GAAP) | $69,123 | $74,748 | $45,026 |

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Additional Operational Results

| | Three Months Ended December 31, | Three Months Ended March 31, | | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | % Change |
| (Thousands of U.S. Dollars) | | | | |
| Oil and natural gas sales | $127,179 | $138,228 | $94,659 | 46 |
| Operating expenses | 31,403 | 26,265 | 23,937 | 10 |
| Transportation expenses | 5,635 | 6,997 | 6,942 | 1 |
| Operating netback[(1)] | 90,141 | 104,966 | 63,780 | 65 |
| | | | | |
| DD&A expenses | 38,606 | 39,461 | 26,593 | 48 |
| Asset impairment | 275 | — | 283 | (100) |
| G&A expenses before stock-based compensation | 7,637 | 7,982 | 7,563 | 6 |
| G&A stock-based compensation expense | 4,501 | 3,178 | 1,149 | 177 |
| Severance expenses | 123 | — | — | — |
| Equity tax | — | — | 1,224 | (100) |
| Foreign exchange loss (gain) | 1,288 | (942) | (1,847) | 49 |
| Financial instruments loss (gain) | 21,140 | 6,946 | (5,439) | 228 |
| Interest expense | 3,467 | 5,495 | 3,095 | 78 |
| | 77,037 | 62,120 | 32,621 | 90 |
| | | | | |
| Loss on sale of business units | (35,309) | — | — | — |
| Interest income | 255 | 786 | 408 | 93 |
| | | | | |
| (Loss) income before income taxes | (21,950) | 43,632 | 31,567 | 38 |
| | | | | |
| Current income tax expense | 10,800 | 12,289 | 7,417 | 66 |
| Deferred income tax expense | 8,052 | 13,482 | 11,379 | 18 |
| | 18,852 | 25,771 | 18,796 | 37 |
| Net income (loss) | $(40,802) | $17,861 | $12,771 | 40 |
| | | | | |
| Sales Volumes (NAR) | | | | |
| Total sales volumes, BOEPD | 28,169 | 27,203 | 24,808 | 10 |
| | | | | |
| Average Prices | | | | |
| Oil and NGL's per bbl | $49.37 | $56.63 | $42.96 | 32 |
| Natural gas per Mcf | $1.88 | $2.91 | $1.52 | 91 |
| | | | | |
| Brent Price per bbl | $61.54 | $67.18 | $54.66 | 23 |
| | | | | |
| Consolidated Results of Operations per BOE Sales Volumes NAR | | | | |
| Oil and natural gas sales | $49.07 | $56.46 | $42.40 | 33 |
| Operating expenses | 12.12 | 10.73 | 10.72 | — |
| Transportation expenses | 2.17 | 2.86 | 3.11 | (8) |

| | | | | |
|---|---|---|---|---|
| Operating netback[(1)] | 34.78 | 42.87 | 28.57 | 50 |

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| | | | | |
|---|---|---|---|---|
| DD&A expenses | 14.90 | 16.12 | 11.91 | 35 |
| Asset impairment | 0.11 | — | 0.13 | (100) |
| G&A expenses before stock-based compensation | 2.95 | 3.26 | 3.39 | (4 ) |
| G&A stock-based compensation expense | 1.74 | 1.30 | 0.51 | 155 |
| Severance expenses | 0.05 | — | — | — |
| Equity tax | — | — | 0.55 | (100) |
| Foreign exchange loss (gain) | 0.50 | (0.38 ) | (0.83 ) | 54 |
| Financial instruments loss (gain) | 8.16 | 2.84 | (2.44 ) | 216 |
| Interest expense | 1.34 | 2.24 | 1.39 | 61 |
| | 29.75 | 25.38 | 14.61 | 74 |
| Loss on sale of business units | (13.62 ) | — | — | — |
| Interest income | 0.10 | 0.32 | 0.18 | 78 |
| (Loss) income before income taxes | (8.49 ) | 17.81 | 14.14 | 26 |
| Current income tax expense | 4.17 | 5.02 | 3.32 | 51 |
| Deferred income tax expense | 3.11 | 5.51 | 5.10 | 8 |
| | 7.28 | 10.53 | 8.42 | 25 |
| Net income (loss) | $(15.77) | $7.28 | $5.72 | 27 |

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

Oil and Gas Production and Sales Volumes, BOEPD

| | Three Months Ended March 31, 2018 | | | Three Months Ended March 31, 2017 | | |
|---|---|---|---|---|---|---|
| Average Daily Volumes (BOEPD) | Colombia | Brazil | Total | Colombia | Brazil | Total |
| Working Interest Production Before Royalties | 35,075 | — | 35,075 | 28,481 | 1,398 | 29,879 |
| Royalties | (6,886 ) | — | (6,886 ) | (4,868 ) | (221 ) | (5,089 ) |
| Production NAR | 28,189 | — | 28,189 | 23,613 | 1,177 | 24,790 |
| (Increase) Decrease in Inventory | (986 ) | — | (986 ) | 7 | 11 | 18 |
| Sales | 27,203 | — | 27,203 | 23,620 | 1,188 | 24,808 |
| Royalties, % of Working Interest Production Before Royalties | 20 % | —% | 20 % | 17 % | 16 % | 17 % |

Oil and gas production NAR for the three months ended March 31, 2018 increased by 14% to 28,189 BOEPD, compared with 24,790 BOEPD in the comparable period of 2017. Colombian NAR production for the three months ended March 31, 2018 increased 19% compared with the comparable period of 2017. We increased oil and gas production NAR as a result of successful drilling and a workover campaign in the Acordionero Field, the Vonu-1 exploration well and a workover campaign in the Cumplidor Field in Colombia. Working interest production before royalties from the Acordionero Field averaged 16,751 bopd before royalties during the three months ended March 31, 2018 compared with 6,198 bopd in the comparative period of 2017, a 170% increase.

Royalties as a percentage of production for the three months ended March 31, 2018 increased compared with the comparative period in the prior year commensurate with the increase in oil prices due to price sensitive royalties payable in Colombia, higher API in the Acordionero Field and Acordionero reaching the threshold for the High Price

Royalties.

Operating Netbacks

| (Thousands of U.S. Dollars) | Three Months Ended March 31, 2018 Colombia | Brazil | Total | Three Months Ended March 31, 2017 Colombia | Brazil | Total |
|---|---|---|---|---|---|---|
| Oil and Natural Gas Sales | $138,228 | $ — | $138,228 | $90,464 | $4,195 | $94,659 |
| Transportation Expenses | (6,997) | — | (6,997) | (6,765) | (177) | (6,942) |
| | 131,231 | — | 131,231 | 83,699 | 4,018 | 87,717 |
| Operating Expenses | (26,265) | — | (26,265) | (23,156) | (781) | (23,937) |
| Operating Netback[(1)] | $104,966 | $ — | $104,966 | $60,543 | $3,237 | $63,780 |
| | | | | | | |
| U.S. Dollars Per BOE Sales Volumes NAR | | | | | | |
| Brent | $67.18 | $ — | $67.18 | $54.66 | $54.66 | $54.66 |
| Quality and Transportation Discounts | (10.72) | — | (10.72) | (12.11) | (15.42) | (12.26) |
| Average Realized Price | 56.46 | — | 56.46 | 42.55 | 39.24 | 42.40 |
| Transportation Expenses | (2.86) | — | (2.86) | (3.18) | (1.66) | (3.11) |
| Average Realized Price Net of Transportation Expenses | 53.60 | — | 53.60 | 39.37 | 37.58 | 39.29 |
| Operating Expenses | (10.73) | — | (10.73) | (10.89) | (7.31) | (10.72) |
| Operating Netback[(1)] | $42.87 | $ — | $42.87 | $28.48 | $30.27 | $28.57 |

[(1)] Operating netback is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to non-GAAP measures disclosure above regarding this measure.

Oil and gas sales for the three months ended March 31, 2018, increased by 46% to $138.2 million from $94.7 million, in the comparable period of 2017 due to increased sales volumes and realized oil prices.

The following table shows the effect of changes in realized prices and sales volumes on our oil and gas sales for the three months ended March 31, 2018 compared with the prior quarter and the comparative period in 2017:

| | First Quarter 2018 Compared with Fourth Quarter 2017 | First Quarter 2018 Compared with First Quarter 2017 |
|---|---|---|
| Oil and natural gas sales for the comparative period | $127,179 | $94,659 |
| Realized sales price increase effect | 18,078 | 34,426 |
| Sales volume (decrease) increase effect | (7,029) | 9,143 |
| Oil and natural gas sales for period ended March 31, 2018 | $138,228 | $138,228 |

Average realized prices for the three months ended March 31, 2018, increased by 33% commensurate with the increase in benchmark oil prices and lower transportation and quality discounts compared with the comparable period of 2017. Average Brent oil prices for the three months ended March 31, 2018, increased by 23% compared with the comparable period of 2017.

Oil and gas sales for the three months ended March 31, 2018, increased by 9% to $138.2 million from $127.2 million compared with the prior quarter due to higher realized oil prices, partially offset by lower sales volumes. Lower sales volumes were the net result of higher working interest production before royalties being more than offset by an increase in inventory and higher price sensitive royalties as a result of increased Brent prices. Average realized prices increased by 15% to $56.46 per BOE for the three months ended March 31, 2018, compared with $49.07 per BOE in the prior quarter. Average Brent oil prices for the three months ended March 31, 2018, increased by 9% to $67.18 per bbl, compared with $61.54 per bbl in the prior quarter.

We have options to sell our oil though multiple pipelines and trucking routes. Each transportation route has varying effects on realized sales prices and transportation expenses. We focus on maximizing operating netback. The following table shows the percentage of oil volumes we sold in Colombia using each transportation method for the three months ended March 31, 2018 and 2017 and the prior quarter:

| | Three Months Ended December 31, 2017 | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|---|
| Volume transported through pipeline | 10 % | 9 % | 25 % |
| Volume sold at wellhead | 47 % | 52 % | 50 % |
| Volume sold not at wellhead, trucking | 43 % | 39 % | 25 % |
| | 100 % | 100 % | 100 % |

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

Total Company transportation expenses for the three months ended March 31, 2018, increased by 1% to $7.0 million compared with the corresponding period in 2017. On a per BOE basis, transportation expenses decreased by 8% to $2.86 from $3.11 in the corresponding period in 2017.

Colombian transportation expenses for the three months ended March 31, 2018 on a per BOE basis, decreased by 10% to $2.86 per from $3.18 in the corresponding period in 2017. The decrease in Colombian transportation expenses per BOE was due to renegotiation of certain sales contracts, which had lower transportation costs compared to contracts used in 2017.

Total Company transportation expenses for the three months ended March 31, 2018 increased 24% to $7.0 million compared with $5.6 million in the prior quarter. On a per BOE basis, transportation expenses increased by 32% to $2.86 from $2.17 in the prior quarter. The increase was primarily due to the use of alternative transportation routes, which had higher costs per BOE.

The quarterly increase in Colombia transportation expenses was more than offset by a decrease in quality and transportation discounts. On a per BOE basis, quality and transportation discounts decreased by 14% to $10.72 from $12.47 in the prior quarter, a reduction which resulted from optimization of transportation routes and narrowing of differentials.

The following table shows the variance in our average realized prices net of transportation expenses in Colombia for the three months ended March 31, 2018 compared with the prior quarter and the comparative period in 2017:

| U.S. Dollars Per BOE Sales Volumes NAR | First Quarter 2018 Compared with Fourth Quarter 2017 | First Quarter 2018 Compared with First Quarter 2017 |
|---|---|---|
| Average realized price net of transportation expenses for the comparative period | $ 46.90 | $ 39.37 |

| | | |
|---|---|---|
| Increase in benchmark prices | 5.64 | $ 12.52 |
| Decrease in quality and transportation discounts | 1.75 | 1.39 |
| (Increase) decrease in transportation expenses | (0.69 ) | 0.32 |
| Average realized price net of transportation expenses for the period ended March 31, 2018 | $ 53.60 | $ 53.60 |

Total Company operating expenses for the three months ended March 31, 2018 increased by 10% to $26.3 million compared with the corresponding period in 2017. The increase was due to higher sales volumes and the increased operating costs per BOE.

On a per BOE basis, Colombian operating expenses decreased by $0.16 and workover expenses decreased by $0.65 compared with the corresponding period in 2017. Excluding workover expenses, Colombia operating expenses increased by $0.49 per BOE primarily as a result of power disruption costs in the Putumayo region as a result of Mocoa natural disaster, the NaturAmazonas reforestation and conservation program and water injection activities conducted in the Acordionero Field during the first quarter of 2018.

Total Company operating expenses for the three months ended March 31, 2018 decreased by 16% to $26.3 million compared with the prior quarter. On a per BOE basis, operating expenses decreased by $1.39 to $10.73 for the three months ended March 31, 2018, from $12.12 in the prior quarter and workover expenses increased by $0.25. Excluding workover expenses, operating expenses decreased by $1.64 per BOE compared with the prior quarter primarily as a result of lower slickline testing service and maintenance activity in the quarter.

DD&A Expenses

| | Three Months Ended March 31, 2018 | | Three Months Ended March 31, 2017 | |
|---|---|---|---|---|
| | DD&A expenses, thousands of U.S. Dollars | DD&A expenses, U.S. Dollars Per BOE | DD&A expenses, thousands of U.S. Dollars | DD&A expenses, U.S. Dollars Per BOE |
| Colombia | $38,499 | $ 15.72 | $24,935 | $ 11.73 |
| Brazil | — | — | 1,213 | 11.35 |
| Peru | — | — | 226 | — |
| Corporate | 962 | — | 219 | — |
| | $39,461 | $ 16.12 | $26,593 | $ 11.91 |

DD&A expenses for the three months ended March 31, 2018, increased to $39.5 million ($16.12 per BOE) from $26.6 million ($11.91 per BOE) in the comparable period in 2017. On a per BOE basis, the increase was due to higher costs in the depletable base partially offset by increased proved reserves. On a per BOE basis, DD&A expenses increased by 8% to $16.12 per BOE for the three months ended March 31, 2018, from $14.90 per BOE in the prior quarter due to higher costs in the depletable base.

G&A Expenses

| | Three Months Ended December 31, | Three Months Ended March 31, | | |
|---|---|---|---|---|
| (Thousands of U.S. Dollars) | 2017 | 2018 | 2017 | % Change |
| G&A Expenses Before Stock-Based Compensation | $ 7,637 | $7,982 | $7,563 | 6 |
| G&A Stock-Based Compensation | 4,501 | 3,178 | 1,149 | 177 |
| G&A Expenses, Including Stock-Based Compensation | $ 12,138 | $11,160 | $8,712 | 28 |
| | | | | |
| U.S. Dollars Per BOE Sales Volumes NAR | | | | |
| G&A Expenses Before Stock-Based Compensation | $ 2.95 | $3.26 | $3.39 | (4 ) |
| G&A Stock-Based Compensation | 1.74 | 1.30 | 0.51 | 155 |
| G&A Expenses, Including Stock-Based Compensation | $ 4.69 | $4.56 | $3.90 | 17 |

G&A expenses for the three months ended March 31, 2018, decreased by 8% to $11.2 million compared with $12.1 million in the prior quarter primarily due to lower stock-based compensation.

For the three months ended March 31, 2018, G&A expenses before stock-based compensation increased by 6% from the corresponding period in 2017. The increase was commensurate with our growth and activity. On a per BOE basis, G&A expenses decreased 4% from the comparative period. After stock-based compensation, G&A expenses for the three months ended March 31, 2018 increased by 28% to $11.2 million from $8.7 million in the corresponding period in 2017. The increase was mainly due to the increase in G&A Stock-Based Compensation resulting from additional PSUs outstanding and higher share price at March 31, 2018.

Foreign Exchange Gains and Losses

For the three months ended March 31, 2018, we had foreign exchange gains of $0.9 million, compared to $1.8 million in the corresponding period in 2017. Deferred taxes are considered a monetary liability and require translation from local currency to U.S. dollar functional currency at each balance sheet date. This translation was the main source of the foreign exchange gains and losses. The following table presents the change in the U.S. dollar against the Colombian peso for the three months ended March 31, 2018, and 2017:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Change in the U.S. dollar against the Colombian peso | weakened by 7% | weakened by 4% |

Financial Instrument Gains and Losses

The following table presents the nature of our financial instruments gains and losses for the three months ended March 31, 2018, and 2017:

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Commodity price derivative loss (gain) | $4,995 | $(4,703) |
| Foreign currency derivatives gain | (3,970) | (736) |
| Investment loss | 5,921 | — |
| | $6,946 | $(5,439) |

Income Tax Expense and Recovery

| | Three Months Ended March 31, | |
|---|---|---|
| (Thousands of U.S. Dollars) | 2018 | 2017 |
| Income before income tax | $43,632 | $31,567 |
| | | |
| Current income tax expense | $12,289 | $7,417 |
| Deferred income tax expense | 13,482 | 11,379 |
| Total income tax expense | $25,771 | $18,796 |
| | | |
| Effective tax rate | 59 % | 60 % |

Current income tax expense was higher in the three months ended March 31, 2018, compared with the corresponding period in 2017 as a result of higher taxable income in Colombia. The deferred income tax expense of $13.5 million for the three months ended March 31, 2018, was primarily due to excess tax depreciation as compared with accounting depreciation in Colombia.

For the three months ended March 31, 2018, the difference between the effective tax rate of 59% and the 21% U.S. statutory rate was primarily due to an increase to the impact of foreign taxes, valuation allowance, other permanent differences, non-deductible third party royalty in Colombia, stock based compensation, other local taxes and foreign currency translation.

For the three months ended March 31, 2017, the difference between the effective tax rate of 60% and the 35% U.S. statutory rate was primarily due to an increase in the valuation allowance, which was largely attributable to losses incurred in the United States, Brazil and Colombia, as well as the impact of a non-deductible third-party royalty in Colombia, foreign taxes, local taxes, and stock based compensation. These items were partially offset by foreign currency translation adjustments and other permanent differences.

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

| (Thousands of U.S. Dollars) | First Quarter 2018 Compared with Fourth Quarter 2017 | | | % change | First Quarter 2018 Compared with First Quarter 2017 | | | % change |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) for the comparative period | $ | (40,802 | ) | | $ | 12,771 | | |
| Increase (decrease) due to: | | | | | | | | |
| Prices | 18,078 | | | | 34,426 | | | |
| Sales volumes | (7,029 | | ) | | 9,143 | | | |
| Expenses: | | | | | | | | |
| Operating | 5,138 | | | | (2,328 | | ) | |
| Transportation | (1,362 | | ) | | (55 | | ) | |
| Cash G&A and RSU settlements, excluding stock-based compensation expense | (643 | | ) | | (144 | | ) | |
| Severance | 123 | | | | — | | | |
| Interest, net of amortization of debt issuance costs | (1,905 | | ) | | (2,335 | | ) | |
| Realized foreign exchange | 44 | | | | 869 | | | |
| Settlement of financial instruments | (5,862 | | ) | | (6,585 | | ) | |
| Current taxes | (1,489 | | ) | | (4,872 | | ) | |
| Equity tax | — | | | | 1,224 | | | |
| Other | 532 | | | | 379 | | | |
| Net change in funds flow from operations(1) from comparative period | 5,625 | | | | 29,722 | | | |
| Expenses: | | | | | | | | |
| Depletion, depreciation and accretion | (855 | | ) | | (12,868 | | ) | |
| Asset impairment | 275 | | | | 283 | | | |
| Deferred tax | (5,430 | | ) | | (2,103 | | ) | |
| Amortization of debt issuance costs | (123 | | ) | | (65 | | ) | |
| Stock-based compensation, net of RSU settlement | 1,621 | | | | (2,304 | | ) | |
| Financial instruments gain or | 20,056 | | | | (5,800 | | ) | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| loss, net of financial instruments settlements | | | | | | | |
| Unrealized foreign exchange | 2,185 | | | (1,775 | ) | | |
| Loss on sale of business units | 35,309 | | | — | | | |
| Net change in net income or loss | 58,663 | | | 5,090 | | | |
| Net income for the current period | $ 17,861 | 144 | % | $ 17,861 | | 40 | % |

(1)Funds flow from operations is a non-GAAP measure which does not have any standardized meaning prescribed under GAAP. Refer to non-GAAP measures disclosure above regarding this measure.

2018 Capital Program

Colombia remains our focus and represents 100% of the 2018 capital program. We have increased the 2018 facilities capital program by $25 million; $5 million related to the acceleration of facilities expansion in Acordionero to support the better than expected production results to date and $20 million allocated to Gran Tierra owned gas-to-power projects. The gas-to-power projects include $17 million for the construction of a 22 megawatt gas-to-power facilities in Acordionero and $3 million for remote power generation capacity in the Putumayo Basin. These Gran Tierra owned facilities are designed to improve the reliability of power generation and will support production consistency, water injection reliability and reduce costly artificial lift failures caused by power interruptions. In addition, we expect to save $8 to $10 million per year in operating costs in Acordionero as a result of these projects.

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

| | Number of Wells (Gross) | Number of Wells (Net) | 2018 Capital Budget ($ million) |
|---|---|---|---|
| Colombia | | | |
| Development | 19-21 | 18-20 | $100-105 |
| Exploration | 8-11 | 7-10 | 80-90 |
| Facilities | — | — | 75-80 |
| Seismic and Studies | — | — | 20 |
| | 27-32 | 25-30 | $275-295 |

Based on the midpoint of the guidance, the capital budget is forecasted to be approximately 65% directed to development and 35% to exploration. Between 40% and 45% of the revised 2018 development capital program is expected to be directed to facilities, with approximately 75% of this investment expected to be dedicated to the ongoing facilities expansion at the Acordionero Field. We expect our revised 2018 capital program to be fully funded by cash flows from operations.

Capital expenditures during the three months ended March 31, 2018, were $72.7 million:

| (Thousands of U.S. Dollars) | |
|---|---|
| Colombia: | |
| Exploration | $19,234 |
| Development: | |
| Facilities | 11,002 |
| Drilling and Completions | 35,498 |
| Other | 6,827 |
| | 72,561 |
| Corporate | 133 |
| | $72,694 |

During the three months ended March 31, 2018, we drilled the following wells in Colombia:

| | Number of wells (Gross) | Number of wells (Net) |
|---|---|---|
| Development | 5 | 4.2 |
| Exploration | 1 | 1.0 |
| Total Colombia | 6 | 5.2 |

The Ayombero-1 well, which was in-progress at December 31, 2017, was brought on production during the first quarter of 2018. We spud an exploration well in the Midas Block (Totumillo-1), which was in-progress as of March 31, 2018. These wells are targeting the conversion of prospective resources to reserves.

Development wells were spud in the Chaza Block (Costayaco-31 and 32), the Midas Block (Acordionero-6 and 22) and the Suroriente Block (Cohembi-16), with two of these wells are currently on production (Costayaco-31 and Acordionero-6). Acordionero-20, which was in-progress as of December 31, 2017, was brought on production during the first quarter of 2018.

We also continued facilities work at the Acordionero Field on the Midas Block and the Moqueta and Costayaco Fields on the Chaza Block. The Acordionero facilities expansion has been accelerated due to better than expected results to date and is designed to handle 30,000 bopd.

Liquidity and Capital Resources

| (Thousands of U.S. Dollars) | As at March 31, 2018 | % Change | December 31, 2017 |
|---|---|---|---|
| Cash and Cash Equivalents | $160,474 | — | $ 12,326 |
| Current Restricted Cash and Cash Equivalents | $3,294 | (72) | $ 11,787 |
| Revolving Credit Facility | $— | (100) | $ 148,000 |
| Senior Notes | $300,000 | — | $ — |
| Convertible Notes | $115,000 | — | $ 115,000 |

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

On February 15, 2018, through our indirect wholly owned subsidiary, Gran Tierra Energy International Holdings Ltd., we issued $300 million aggregate principal amount of Senior Notes. The Senior Notes bear interest at a rate of 6.25% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on August 15, 2018. The Senior Notes will mature on February 15, 2025, unless earlier redeemed or repurchased. The net proceeds of the Senior Notes were used to repay the outstanding amount on the revolving credit facility, with the remainder for general corporate purposes.

At March 31, 2018, we had a revolving credit facility with a syndicate of lenders with a borrowing base of $300 million. At March 31, 2018 we had zero drawn on our credit facility. Availability under the revolving credit facility is determined by the reserves-based borrowing base determined by the lenders. The next re-determination of the borrowing base is due to occur no later than May 2018.

Under the terms of our credit facility and Senior Notes, we are required to maintain compliance with certain financial and operating covenants which include: limitations on our ratio of debt to net income plus interest, taxes, depreciation, depletion, amortization, exploration expenses and all non-cash charges minus all non-cash income ("EBITDAX") to a maximum of 4.0 to 1.0 (under the credit facility) and 3.5 to 1.0 (under the Senior Notes); the maintenance of a ratio of EBITDAX to interest expense of at least 2.5 to 1.0 (definitions of debt, EBITDAX and other relevant terms are per the credit agreement or the indenture governing the Senior Notes and may differ between the these agreements). As at March 31, 2018, we were in compliance with all financial and operating covenants in these agreements. Under the terms of the credit facility and Senior Notes, we are also limited in our ability to make distributions to our shareholders.

At March 31, 2018, we had $115 million aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the "Convertible Notes") outstanding. The Convertible Notes bear interest at a rate of 5.00% per year, payable semi-annually in arrears on April 1 and October 1 of each year. The Convertible Notes will mature on April 1, 2021, unless earlier redeemed, repurchased or converted. The Convertible Notes are convertible to Common Stock at a conversion price of approximately $3.21 per share of Common Stock at the option of the holder at any time prior to the close of business on the business day immediately preceding the maturity date.

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

At March 31, 2018, 97% of our cash and cash equivalents were held by subsidiaries and partnerships outside of Canada and the United States. This cash was generally not available to fund domestic or head office operations unless funds were repatriated. At this time, we do not intend to repatriate further funds other than to pay head office charges, but if we did, we might have to accrue and pay withholding taxes in certain jurisdictions on the distribution of accumulated earnings. Undistributed earnings of foreign subsidiaries are considered to be permanently reinvested and a determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

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

Derivative Positions

At March 31, 2018, we had outstanding commodity price derivative positions as follows:

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

At March 31, 2018, current liabilities on our balance sheet included $21.7 million in relation to the above outstanding commodity price derivative positions

At March 31, 2018, we had the following outstanding foreign currency derivative positions:

| Period and type of instrument | Amount Hedged (Millions COP) | U.S. Dollar Equivalent of Amount Hedged (Thousands of U.S. Dollars)(1) | Reference | Purchased Call (COP) | Sold Put (COP, Weighted Average) |
|---|---|---|---|---|---|
| Collars: April 1, 2018 to December 31, 2018 | 130,500 | 46,935 | COP | 3,000 | 3,107 |

(1) At March 31, 2018 foreign exchange rate.

At March 31, 2018, current assets on our balance sheet included $3.8 million in relation to the above outstanding foreign currency derivative positions

Cash Flows

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

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Sources of cash and cash equivalents: | | |
| Net income | $17,861 | $12,771 |
| Adjustments to reconcile net income to funds flow from operations | | |
| DD&A expenses | 39,461 | 26,593 |
| Asset impairment | — | 283 |
| Deferred tax expense | 13,482 | 11,379 |
| Stock-based compensation expense | 3,309 | 1,203 |
| Amortization of debt issuance costs | 670 | 605 |
| Cash settlement of RSUs | (120) | (318) |
| Unrealized foreign exchange loss (gain) | (1,044) | (2,819) |
| Financial instruments loss (gain) | 6,946 | (5,439) |
| Cash settlement of financial instruments | (5,817) | 768 |
| Funds flow from operations(1) | 74,748 | 45,026 |
| Proceeds from bank debt, net of issuance costs | 4,988 | 18,471 |
| Proceeds from issuance of Senior Notes, net of issuance costs | 288,368 | — |
| Changes in non-cash investing working capital | 1,957 | — |
| Proceeds from issuance of shares | 74 | — |
| Net changes in assets and liabilities from operating activities | — | 4,930 |
| Deposit received for sale of Brazil business unit | — | 3,500 |
| Foreign exchange gain on cash, cash equivalents and restricted cash and cash equivalents | 663 | 474 |
| | 370,798 | 72,401 |
| Uses of cash and cash equivalents: | | |
| Additions to property, plant and equipment | (72,694) | (46,160) |
| Repayment of bank debt | (153,000) | (23,000) |
| Repurchase of shares of Common Stock | (1,194) | — |
| Net changes in assets and liabilities from operating activities | (3,464) | — |
| Changes in non-cash investing working capital | — | (1,797) |
| Settlement of asset retirement obligations | (192) | (13) |
| | (230,544) | (70,970) |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents | $140,254 | $1,431 |

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

One of the primary sources of variability in our cash flows from operating activities is the fluctuation in oil prices, the impact of which we partially mitigate by entering into commodity derivatives. Sales volume changes and costs related to operations and debt service also impact cash flow. Our cash flows from operating activities are also impacted by foreign currency exchange rate changes, the impact of which we partially mitigate by entering into foreign currency derivatives.

Off-Balance Sheet Arrangements

As at March 31, 2018, we had no off-balance sheet arrangements.

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Contractual Obligations

During the three months ended March 31, 2018, we fully repaid the balance of $153.0 million outstanding under our revolving credit facility, which remained undrawn at March 31, 2018.

During February 2018, we issued $300 million aggregate principal amount of Senior Notes. Refer to Note 5 in the Notes to the Condensed Consolidated Financial Statements (Unaudited) in Part I, Item 1 of this Form 10-Q, incorporated herein by reference, for further information.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity price risk

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

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

Foreign currency risk

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

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

Additionally, foreign exchange gains and losses result primarily from the fluctuation of the U.S. dollar to the Colombian peso due to our current and deferred tax liabilities, which are monetary liabilities, denominated in the local currency of the

Colombian foreign operations. As a result, a foreign exchange gain or loss must be calculated on conversion to the U.S. dollar functional currency.

Interest Rate Risk

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

Further Information

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or Exchange Act). Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by Gran Tierra in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, as required by Rule l3a-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 March 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Issuer Purchases of Equity Securities

| | (a) Total Number of Shares Purchased[1] | (b) Average Price Paid per Share [2] | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs | |
|---|---|---|---|---|---|
| January 1-31, 2018 | — | — | — | 11,835,982 | (3 ) |
| February 1-28, 2018 | — | — | — | 11,835,982 | (3 ) |
| March 1- 31, 2018 | 464,912 | 2.57 | 464,912 | 18,804,820 | (4 ) |
| | 464,912 | 2.57 | 464,912 | 18,804,820 | |

(1) Based on settlement date.

(2) Exclusive of commissions paid to the broker to repurchase the Common Stock.

(3) On January 30, 2017, we announced that we intended to implement a share repurchase program or normal course issuer bid (the “2017 Program”) through the facilities of the TSX, the NYSE American and eligible alternative trading platforms in Canada and the United States. We received regulatory approval from the TSX to commence the 2017 Program on February 6, 2017. We were able to purchase at prevailing market prices up to 19,540,359 shares of Common Stock, representing approximately 5.00% of our issued and outstanding shares of Common Stock as of January 27, 2017. The 2017 Program expired on February 7, 2018, at which time 7,704,377 million shares had been repurchased at a weighted average price per share of $2.33.

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

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

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Item 6. Exhibits

| Exhibit No. | Description | Reference |
|---|---|---|
| 2.1 | Plan of Conversion, dated October 31, 2016. | Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed with the SEC on November 4, 2016 (SEC File No. 001-34018). |
| 3.1 | 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). |
| 4.1 | Details of the Goldstrike Special Voting Share. | Incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-KSB/A for the period ended December 31, 2005, and filed with the SEC on April 21, 2006 (SEC File No. 333-111656). |
| 4.2 | Goldstrike Exchangeable Share Provisions. | Incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-KSB/A for the period ended December 31, 2005 and filed with the SEC on April 21, 2006 (SEC File No. 333-111656). |
| 4.3 | Provisions Attaching to the GTE–Solana Exchangeable Shares. | Incorporated by reference to Annex E to the Proxy Statement on Schedule 14A filed with the SEC on October 14, 2008 (SEC File No. 001-34018). |
| 4.4 | Indenture related to the 5.00% Convertible Senior Notes due 2021, dated as of April 6, 2016, between Gran Tierra Energy Inc. and U.S. Bank National Association | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with the SEC on April 6, 2016 (SEC File No. 001-34018). |
| 4.5 | Form of 5.00% Convertible Senior Notes due 2021 | Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed with the SEC on April 6, 2016 (SEC File No. 001-34018). |
| 4.6 | Subscription Receipt Agreement, dated July 8, 2016, by and between Gran Tierra Energy Inc. and Computershare Trust | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed with |

| | | |
|---|---|---|
| | Company of Canada. | the SEC on July 14, 2016 (SEC File No. 001-34018). |
| 4.7 | Form of Registration Rights Agreement. | Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K, filed with the SEC on July 14, 2016 (SEC File No. 001-34018). |
| 4.8 | Purchase Agreement, dated February 8, 2018, by and among Gran Tierra Energy International Holdings Ltd., Gran Tierra Energy Inc. and the subsidiary guarantors named therein, and Credit Suisse Securities (USA) LLC and RBC Capital Markets, LLC, as Representatives of the several initial purchasers. | Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on February 9, 2018 (SEC File No. 001-34018). |
| 4.9 | Indenture related to the 6.25% Senior Notes due 2025, dated as of February 15, 2018, between Gran Tierra Energy International Holdings Ltd., the Guarantors named therein and U.S. Bank National Association | Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on February 16, 2018 (SEC File No. 001-34018). |
| 4.10 | Form of 6.25% Senior Notes due 2025 | Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed with the SEC on February 16, 2018 (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. |

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| | | |
|---|---|---|
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith. |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith. |

101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

GRAN TIERRA ENERGY INC.

Date: May 1, 2018 /s/ Gary S. Guidry
By: Gary S. Guidry
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 1, 2018 /s/ Ryan Ellson
By: Ryan Ellson
Chief Financial Officer
(Principal Financial and Accounting Officer)

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