

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

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

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

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

For the fiscal year ended December 31, 2005

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

For the transition period from _____ to _____

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

Nevada

(State or other jurisdiction of
incorporation or organization)

333-111656

(Commission File Number)

98-0479924

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

**300, 611-10TH AVENUE S.W.
FLOOR, 610-8TH AVENUE S.W.
CALGARY, ALBERTA
CANADA**

(Address of principal executive
offices)

(403) 265-3221

(Telephone Number)

T2R 0B2

(Zip Code)

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format. Yes No

EXPLANATORY NOTE

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

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

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

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

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SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

PART I

Item 1. Description of Business.

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

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

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

statements of Gran Tierra Canada before the share exchange in all future filings with the SEC.

Company Overview

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

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

Industry Introduction

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

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

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

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

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

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

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

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

New Opportunities for Smaller Companies

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

Company Business Plan

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

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

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

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

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

§ Engage qualified, experienced and motivated professionals;

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

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

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

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

§ Establish an effective local presence;

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

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

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

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

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

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

§ Assess and close opportunities expeditiously;

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

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

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

Proprietary Deal Flow

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

Company Financial Fundamentals

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

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

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

The Argentina Acquisitions

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

§ Palmar Largo Joint Venture - Gran Tierra participation 14%, Pluspetrol (Operator) 38.15%, Repsol YPF 30%,
Compañía General de Combustibles (“CGC”) 17.85%.

§ Nacatimbay Concession - Gran Tierra participation 50%, CGC (Operator) 50%.

§ Ipaguezu Concession - Gran Tierra participation 50%, CGC (Operator) 50%.

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

Financing

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

The Share Exchange

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

Prior Goldstrike Business

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

Markets and Competition

We market our own share of production in Argentina. Production from Palmar Largo is a high quality oil and is transported by pipeline and truck to a nearby refinery. Prices are defined by a multi-year contract. Minor volumes of

natural gas and liquids from Nacatimbay are also sold locally. All sales are denominated in pesos but refer to reference or base prices in US dollars. Our average oil price for 2005 was \$37.80 per barrel and our average natural gas price was \$1.50 per thousand cubic foot.

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

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

Regulation

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

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

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

Future Activity

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

Environmental Compliance

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

Employees

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