

GRAN TIERRA ENERGY, INC.  
Form 8-K/A  
December 06, 2006

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

**FORM 8-K/A  
(Amendment No. 2)**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): June 15, 2006**

**GRAN TIERRA ENERGY INC.  
(f/k/a GOLDSTRIKE INC.)**

**(Exact name of registrant as specified in its charter)**

|   |  |   |
|---|--|---|
| <b>Nevada</b><br><b>(State or other jurisdiction</b><br><b>of incorporation)</b>  | <b>333-111656</b><br><b>(Commission File Number)</b> | <b>98-0479924</b><br><b>(I.R.S. Employer</b><br><b>Identification Number)</b> |
| <b>300, 611 - 10<sup>th</sup> Avenue S.W.</b><br><b>Calgary, Alberta, Canada</b><br><b>(Address of principal executive offices)</b> |  | <b>T2R 0B2</b><br><b>(Zip Code)</b>   |

**(403) 265-3221**  
**(Registrant's telephone number, including area code)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

“ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act  
(17 CFR 240.13e-4(c))

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**Introductory Note**

On June 21, 2006, Gran Tierra Energy Inc. (the “Company”) filed a Current Report on Form 8-K (the “Initial Report”) to report the acquisition of all of the limited partnership interests of Argosy Energy International (“Argosy”) and all of the issued and outstanding capital stock of Argosy Energy Corp. On August 21, 2006, the Company filed Amendment No. 1 to the Current Report to include the financial statements and pro forma financial information required under Item 9.01 of Form 8-K. The Company is filing this Amendment No. 2 to the Current Report to revise and update the financial statements and pro forma financial information previously provided under Item 9.01 of Form 8-K.

**Item 9.01 Financial Statements and Exhibits.**

## (a) Financial statements of business acquired.

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**ARGOSY ENERGY INTERNATIONAL, LP**

Financial Statements

March 31, 2006 and the period ended March 31, 2006 (Unaudited)

ARGOSY ENERGY INTERNATIONAL, LP  
 Statements of Income (Unaudited)  
 For the Three Months Ended March 31, 2006 and 2005  
 (Expressed in thousands of US dollars)

|   | 2006     | 2005  |
|---|----------|-------|
| Oil sales to Ecopetrol                    | \$ 3,575 | 1,521 |
| Operating cost (note 8)                   | 367      | 364   |
| Depreciation, depletion and amortization  | 190      | 80    |
| General and administrative expenses       | 282      | 148   |
|   | 839      | 592   |
| Operating profit                          | 2,736    | 929   |
| Other income, net                         | 79       | 116   |
| Income before income and remittance taxes | 2,815    | 1,045 |
| Current income tax (note 9)               | 1,017    | 370   |
| Deferred remittance tax                   | 109      | 42    |
| Total income and remittance taxes         | 1,126    | 412   |
| Net income                                | \$ 1,689 | 633   |

See accompanying notes to unaudited financial statements.

ARGOSY ENERGY INTERNATIONAL, LP  
 Balance Sheets (Unaudited)  
 March 31, 2006 and December 31, 2005  
 (Expressed in thousands of US dollars)

| <u>Assets</u>                               | March 31,<br>2006 | December 31,<br>2005 |
|---|-------------------|----------------------|
| Current assets:                             |                   |                      |
| Cash and cash equivalents (note 3)          | \$ 2,670          | 7,124                |
| Accounts receivable, net (note 4)           | 3,898             | 951                  |
| Accounts receivable reimbursement Ecopetrol | 1,186             | 1,186                |
| Inventories:                                |                   |                      |
| Crude oil                                   | 211               | 218                  |
| Materials and supplies                      | 626               | 557                  |
|   | 837               | 775                  |
| Total current assets                        | 8,591             | 10,036               |
| Other long-term assets                      |                   |                      |
|   | 25                | 16                   |
| Property, plant and equipment (note 5):     |                   |                      |
| Unproved properties                         | 3,831             | 3,622                |
| Proved properties                           | 5,305             | 5,401                |
|   | 9,136             | 9,023                |
| Total assets                                | \$ 17,752         | 19,075               |
| <u>Liabilities and Partners' Equity</u>     |                   |                      |
| Current liabilities:                        |                   |                      |
| Accounts payable                            | 4,852             | 4,979                |
| Tax payable                                 | 1,721             | 1,326                |
| Employee benefits                           | 97                | 103                  |
| Accrued liabilities                         | 547               | 522                  |
| Total current liabilities                   | 7,217             | 6,930                |
| Long-term accounts payable (note 10)        |                   |                      |
|   | 686               | 686                  |
| Deferred income tax                         | 473               | 475                  |
| Deferred remittance tax                     | 1,210             | 1,104                |
| Pension plan                                | -                 | -                    |
| Total liabilities                           | 9,586             | 9,195                |
| Partners' equity (note 7)                   | 8,166             | 9,880                |
| Total liabilities and partners' equity      | \$ 17,752         | 19,075               |

See accompanying notes to unaudited financial statements.

ARGOSY ENERGY INTERNATIONAL, LP  
 Statements of Cash Flows (Unaudited)  
 For the Three Months Ended March 31, 2006 and 2005  
 (Expressed in thousands of US dollars)

|   | 2006     | 2005  |
|---|----------|-------|
| Cash flows from operating activities:   |          |       |
| Net income  | \$ 1,689 | 633   |
| Adjustments to reconcile net income to net cash provided by operating activities: |          |       |
| Depreciation, depletion and amortization  | 190      | 80    |
| Deferred remittance tax   | 109      | 42    |
| Changes in assets and liabilities:  |          |       |
| Accounts receivable   | (3,147)  | (839) |
| Inventories   | (62)     | 58    |
| Accounts payable  | (127)    | 202   |
| Tax payable   | 395      | 99    |
| Employee benefits   | (6)      | 48    |
| Accrued Liabilities   | 25       | 491   |
| Deferred income tax   | (2)      | 1     |
| Deferred remittance tax   | (3)      | 4     |
| Pensions  | -        | (5)   |
| Net cash (used in) provided by operating activities                               | (939)    | 814   |
| Cash flows from investing activities:   |          |       |
| Increase in long term investments   | (9)      | (1)   |
| Payments from Petroleum Equipment International - Talora                          | 200      | -     |
| Additions to property, plant and equipment  | (303)    | (767) |
| Net cash used in investing activities   | (112)    | (768) |
| Cash flows from financial activities:   |          |       |
| Bank overdrafts   | -        | 106   |
| Distributions to partners   | (3,250)  | -     |
| Aviva redemption shares   | (153)    | -     |
| Net cash (used in) provided by financial activities                               | (3,403)  | 106   |
| (Decrease) increase in cash and cash equivalents                                  | (4,454)  | 152   |
| Cash and cash equivalents at beginning of year                                    | 7,124    | 6,954 |
| Cash and cash equivalents at end of the period                                    | \$ 2,670 | 7,106 |

See accompanying notes to unaudited financial statements.



ARGOSY ENERGY INTERNATIONAL, LP  
 Statements of Partners' Equity (Unaudited)  
 For the Three Months Ended March 31, 2006 and the Year Ended December 31, 2005  
 (Expressed in thousands of US dollars)

|  | Limited<br>partners'<br>capital | General<br>partners'<br>capital | Total<br>partners'<br>equity |
|--|---------------------------------|---------------------------------|------------------------------|
| Balance as of December 31, 2005  | 9,810                           | 70                              | 9,880                        |
| Redemption of partnership payments interest -<br>Aviva Overseas Inc. (note 10) | (152)                           | (1)                             | (153)                        |
| Distributions to partners  | (3,227)                         | (23)                            | (3,250)                      |
| Net income   | 1,677                           | 12                              | 1,689                        |
| Balance as of March 31, 2006   | \$ 8,108                        | 58                              | 8,166                        |

See accompanying notes to unaudited financial statements.

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

March 31, 2006 and 2005

(Expressed in thousands of US dollars)

**(1) Business Activities**

Argosy Energy International, LP is a Utah (USA) Limited Partnership, which established a Colombian Branch in 1983.

Argosy Energy International, LP is engaged in the business of exploring for, developing and producing oil and gas. The principal properties and operations are located in Colombia, which are carried out through its Colombian Branch in the Putumayo, Cauca, Tolima and Cundinamarca Provinces. The oil production is sold to Empresa Colombiana de Petr leos, the Colombian National Oil Company, ("Ecopetrol").

There are risks involved in conducting oil and gas activities in remote, rugged and primitive regions of Colombia. The guerrillas have operated within Colombia for many years and expose the Company's operations to potentially detrimental activities. The guerrillas are present in the Putumayo and R o Magdalena areas where the Company's properties are located. Since 1998, the Company has only experienced minor attacks on pipelines and equipment.

Operations

As of March 31, 2006, Argosy was participating in the following Association Contracts signed with Ecopetrol and Exploration and Exploitation Contracts signed with the Hydrocarbons National Agency - ANH.

| Contract        | Participation | Operator | Phase        |
|-----------------|---------------|----------|--------------|
| Santana         | 35%           | ARGOSY   | Exploitation |
| Guayuyaco       | 70%           | ARGOSY   | Exploitation |
| Aporte Putumayo | 100%          | ARGOSY   | Abandonment  |
| R o Magdalena   | 70%           | ARGOSY   | Exploration  |
| Talora          | 20%           | ARGOSY   | Exploration  |
| Chaza           | 50%           | ARGOSY   | Exploration  |

The first four contracts have been signed with ECOPETROL and the last two with ANH.

An association contracts are those where the Government participate as partner of the field through the national oil company - ECOPETROL.

Exploration and production contracts (E&P) are those signed with the ANH - "Agencia Nacional de Hidrocarburos" (National Agency for Hydrocarbons) in which the Government only receive royalties and taxes for the rights of exploration and production but there is not a participation from the national oil company - ECOPETROL or any other government entity.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

The main terms of the above-mentioned contracts are as follows:

**Santana Association Contract**

On May 27, 1987 (effective date July 27, 1987), Argosy Energy International, LP signed this association contract to explore for and produce oil, in the area called Santana. The contract is in its 19th year and the Company reduced the area to a 5 kilometer reserve area around each field. The remaining contract area is approximately 1,100 acres.

Under the terms of the contract with Ecopetrol, a minimum of 25% of all revenues from oil sold to Ecopetrol is paid in Colombian pesos, which may only be utilized in Colombia. However, this proportion can be modified through parties agreement.

**Aporte Putumayo - Association Contract**

The Aporte Putumayo area has been returned to the Government. Such devolution is subject to the approval of the environmental restoration of the region by the Environmental Ministry and the wells abandonment have to be approved by Ecopetrol and the Ministry of Mines.

**Río Magdalena Association Contract**

On December 10, 2001 (effective date February 8, 2002), Argosy Energy International, LP and Ecopetrol signed this Association Contract, to explore and produce oil, in the area called Río Magdalena of approximately 145,000 acres, located in the Middle Magdalena Valley of Colombia in the provinces of Cundinamarca and Tolima.

The contract has a maximum duration of 28 years distributed as follows: an exploration period of 6 years and a production period of 22 years starting on the date of termination of the exploration period. The exploratory well, Popa-1 was drilled during June and July, 2006 and is on the completion stage.

Upon finalization of each phase, Argosy has the option to relinquish the contract, once completed the obligations for each phase.

**BT Letter Agreement**

On February 27, 2001 Argosy Energy International, LP signed a letter agreement with BT Operating Company for the acquisition and management of the Río Magdalena Exploration Area. BT and Argosy mutually agreed to pay their 50% share of costs under the terms of the Ecopetrol Association contract and provide certain services toward management and compliance of the obligations.

As of March 31, 2006 BT had not paid their obligations under this agreement and outstanding accounts receivable of \$355 related to their share of cost related to the Río Magdalena Association Contract were provisioned as bad debts.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

**Guayuyaco Association Contract**

On August 2, 2002 (effective date September 30, 2002) Argosy Energy International, LP signed this association contract with Ecopetrol, to explore and produce oil, in the area called Guayuyaco. This Association contract gives Argosy the right to explore potential reserves in prospects adjacent to the existing Santana oil field. The block is located in the Putumayo and Cauca provinces and covers approximately 52,000 acres originally held under the Santana Risk Sharing Agreement.

The Guayuyaco contract has a maximum duration of 27.5 years with an exploration period of 5.5 years and a production period of 22 years, which starts upon termination of the exploration period.

During the second exploration phase, two wells were drilled (Guayuyaco-1 and Guayuyaco-2) which were successful. Therefore, on December 28, 2005 Ecopetrol accepted the Commerciality of the field.

**Solana Petroleum Exploration Commercial Agreement**

Argosy and Solana Petroleum Exploration entered into a commercial agreement in 2003 whereby, Solana through fulfillment of certain obligations could earn a participating interest in the Inchiyaco Well Prospect (Santana Association Contract) and have an option to enter the next exploration prospect under the Guayuyaco Association Contract. Inchiyaco-1 was drilled and completed as a producing well in 2003 resulting in Solana's sharing 26.21% interest in Argosy's net share of the prospect.

The commercial agreement was revised in 2004, giving Solana the right to share a 50% interest in Argosy's net share of the Guayuyaco association contract by paying 66.7% of two exploratory wells (Guayuyaco-1 and Juanambu-1) and 50% for a new seismic program and additional projects.

**Talora Exploration and Exploitation Contract**

On September 16, 2004 (effective date) Argosy and the National Hydrocarbons Agency (ANH) signed the Talora Exploration and Exploitation Contract to explore and produce oil, in an area of approximately 108,000 acres located in Tolima and Cundinamarca Provinces.

The contract has a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

The contract may be relinquished at the end of each phase after fulfillment of the agreed obligations.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

Argosy and Petroleum Equipment International (PEI) signed a commercial agreement on March 9, 2006. Through fulfillment of certain obligations PEI could earn an 80% of Argosy's interest under the ANH contract on the Talora Block. In conjunction with such assignment, Argosy shall designate PEI as the operator previous approval of the ANH.

## Contractual Commitments:

| Phase | Starting date     | Obligations           |
|-------|-------------------|-----------------------|
| 3     | December 16, 2006 | One exploratory well. |
| 4     | December 16, 2007 | One exploratory well. |
| 5     | December 16, 2008 | One exploratory well. |
| 6     | December 16, 2009 | One exploratory well. |

The contract may be relinquished at the end of each phase after fulfillment of the agreed obligations.

**Chaza Exploration and Exploitation Contract**

On June 27, 2005 (effective date) Argosy and the National Hydrocarbons Agency (ANH) signed the Chaza Exploration and Exploitation Contract to explore and produce oil, in an area of approximately 80,000 acres located in Putumayo and Cauca Provinces.

The contract has a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

The ANH's Resolution 0217, dated September 13, 2005, approved the 2005 assignment of 50% interest of the contract to Solana Petroleum Exploration.

## Contractual Commitments:

| Phase | Starting date     | Obligations           |
|-------|-------------------|-----------------------|
| 2     | June 27, 2006     | One exploratory well. |
| 3     | June 27, 2007     | One exploratory well. |
| 4     | December 27, 2008 | One exploratory well. |
| 5     | December 27, 2009 | One exploratory well. |
| 6     | December 27, 2010 | One exploratory well. |

The contract may be relinquished at the end of each phase after fulfillment of the agreed obligations.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

**(2) Summary of Significant Accounting Policies and Practices**

**(a) Foreign Currency Translation**

The transactions and accounts of the Company's operations denominated in currencies other than US dollars are re-measured into United States dollars in accordance with Statement of Financial Accounting Standards FAS 52. The United States dollar is used as the functional currency. Exchange adjustments resulting from foreign currency balances are recognized in expense or income in the current period.

**(b) Cash Equivalents**

Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

**(c) Inventories**

Inventories consist of crude oil and materials and supplies and are stated at the lower of cost or market.

**(d) Property, Plant and Equipment**

The Company follows the full cost method to account for exploration and development of oil and gas reserves whereby all productive and nonproductive costs are capitalized. The only cost center is Colombia. All capitalized costs plus the undiscounted future development costs of proved reserves are depleted using the unit of production method based on total proved reserves applicable to the country.

Proved oil and gas reserves are the estimated quantities of crude oil that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions considering future production and development costs.

Costs related to initial exploration activities with no proved reserves are initially capitalized and periodically evaluated for impairment. The Company capitalizes internal costs directly identified with exploration and development activities. The net capitalized costs of oil properties are subject to a ceiling test, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. If capitalized costs exceed this limit, the excess is charged to expense and reflected as additional accumulated depreciation, depletion and amortization.

While the quantities of proved reserves require substantial judgment, the associated prices of oil reserves that are included in the discounted present value of the reserves are objectively determined. The ceiling test calculation requires use of prices and costs in effect as of the last day of the accounting period, which are generally held constant for the life of the properties. As a result, the present value is not necessarily an indication of the fair value of the reserves. Oil and gas prices have historically been volatile and the prevailing prices at any given time may not reflect our Partnership's or the industry's forecast of future prices.

(Continued)





ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a country.

Support equipment and facilities are depreciated using the unit of production method based on total reserves of the field related to the support equipment and facilities.

**(e) Environmental Liabilities and Expenditures**

Argosy accrues for losses associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

**(f) Asset Retirement Obligations**

Liability for asset retirement obligation is considered to be negligible at this time, based on projected production profiles, expiry dates and terms of the Association Contracts for current operations. However, the Company has accrued the costs related to environmental remediation and abandonment of the wells belonging to Aporte Putumayo Contract.

**(g) Concentration of Credit Risks**

All of the Company's production is sold to Ecopetrol; the sale price is agreed between both parts, according to local regulations in Colombia.

**(h) Income Taxes**

Deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

**(i) Financial Instruments Fair Value**

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those instruments. The carrying value of other on-balance-sheet financial instruments approximates fair value, and the cost, if any, to terminate off-balance-sheet financial instruments is not significant.

**(j) Employee Benefits**

The Company recognizes the obligations with its employees in accordance with the current Colombian labor law. These obligations include the severance indemnity and the legal service bonus each one equivalent to a monthly salary per year and interest on severance at the rate of 12% on the balance of severance indemnities paid. The relevant liability for these two concepts is shown under the "Employee benefits" account as current liabilities at the closing of the period.

**(k) Defined Benefit Pension Plan**

The Company has a defined benefit pension plan covering one employee. The benefits are based on years of service, age and the employee's compensation. Currently, the cost of this program is not being funded. The actuarial study is performed at the end of each year in accordance with the guidelines established by FAS 87.

**(l) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

**(m) Revenue Recognition**

The Company recognizes revenue when the crude oil is delivered to Ecopetrol.

Ecopetrol pays the oil sales invoicing 25% in local currency and the 75% in US Dollars, according to the terms of the Oil Sales Contract executed between Ecopetrol and Argosy, through which the oil sale price is fixed, with expiration dated November 1, 2006.

**(n) Management Fee**

The Company accounts for the management fees received from its partners as operator of the contracts as a less value of the operating costs.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

**(o) Comprehensive Income**

For each period presented in the accompanying statements of income, comprehensive income and net income are the same amount.

**(3) Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents as of March 31, 2006 and December 31, 2005:

|                               | March 31,<br>2006 | December 31,<br>2005 |
|-------------------------------|-------------------|----------------------|
| Held in United States dollars | \$ 2,040          | 6,329                |
| Held in Colombian pesos       | 157               | 394                  |
| Short-term investments        | 473               | 401                  |
|                               | \$ 2,670          | 7,124                |

**(4) Accounts Receivable**

The following is a summary of accounts receivable as of March 31, 2006 and December 31, 2005:

|  | March 31,<br>2006 | December 31,<br>2005 |
|--|-------------------|----------------------|
| Trade                                    | \$ 3,248          | 675                  |
| B.T.O. Río Magdalena Agreement           | 355               | 355                  |
| Vendor Advances                          | 177               | 172                  |
| Petroleum Equipment Investments - Talora | 300               | -                    |
| Other                                    | 173               | 104                  |
|  | 4,253             | 1,306                |
| Less allowance for bad debts             | (355)             | (355)                |
|  | \$ 3,898          | 951                  |

**(5) Property, Plant and Equipment**

The following is a summary of property, plant and equipment as of March 31, 2006 and December 31, 2005:

|  | March 31,<br>2006 | December 31,<br>2005 |
|--|-------------------|----------------------|
| Oil properties:  |                   |                      |
| Unproved   | \$ 3,831          | 3,622                |
| Proved   | 59,190            | 59,096               |
|  | 63,021            | 62,718               |
| Less accumulated depreciation, depletion, and amortization | 53,885            | 53,695               |
|  | \$ 9,136          | 9,023                |

**Capitalized Cost Unproved**

## Excluded From the Capitalized Cost Being Amortized

| AFE  | Contract                    | Detail                        | Exploration Cost |              |              | Cost Incurred |              |            | Month Anticipated to be included in Amortization |
|--|-----------------------------|-------------------------------|------------------|--------------|--------------|---------------|--------------|------------|--|
|  |                             |                               | Dec-04           | Dec-05       | Mar-06       | 2004          | 2005         | 2006       |  |
| <b>MARY WELLWEST PROSPECT</b>                  | <b>Santana</b>              | Geological & Geophysical Data | 287              | 287          | 287          | 287           |              |            | Dec-06   |
| <b>MARY WEST WELL TESTING</b>                  | <b>Santana</b>              | Geological & Geophysical Data | 93               | 93           | 93           | 93            |              |            | Dec-06   |
| <b>Expl. 100% NEW PROJECTS</b>                 | <b>New Projects</b>         | Geological & Geophysical Data | 253              | 363          | 375          | 253           | 110          | 12         | Dec-06   |
| <b>Expl. 100% SANTANA</b>                      | <b>Guayuyaco</b>            | Geological & Geophysical Data | 1,044            | 1,044        | 1,044        | 1,044         |              |            | Dec-06   |
| <b>Expl. 100% RIO MAGDALENA TALORA PROJECT</b> | <b>Rio Magdalena Talora</b> | Sesimic Program               | 634              | 808          | 889          | 634           | 174          | 81         | Mar-07   |
| <b>SEISMIC GUAYUYACO</b>                       | <b>Guayuyaco</b>            | Sesimic Program               | 0                | 431          | 431          |               | 431          |            | Dec-06   |
| <b>SEISMIC CHAZA POPA-1 WELL EXPLORATORY</b>   | <b>Chaza Rio Magdalena</b>  | Sesimic Program               | 0                | 505          | 538          |               | 505          | 33         | Sep-07   |
| <b>JUANAMBU-1 WELL EXPLORATORY</b>             | <b>Guayuyaco</b>            | Road and Location Well        | 0                | 0            | 32           |               |              | 32         | Mar-07   |
|  |                             | Road and Location Well        | 0                | 2            | 8            |               | 2            | 6          | Jun-07   |
|  |                             |                               |                  | 0            | 0            |               |              |            |  |
| <b>Total Unproved Exploration Costs</b>        |                             |                               | <b>2,312</b>     | <b>3,622</b> | <b>3,831</b> | <b>2,312</b>  | <b>1,310</b> | <b>208</b> |  |

All capital excluded from capital costs being amortized relates to exploration cost. No acquisition costs, development costs or capitalized interest costs are identified.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

**(6) Pension Plan**

The following is a detail of the components of pension cost as of March 31, 2006 and 2005:

|  | March 31,<br>2006 | March 31,<br>2005 |
|--|-------------------|-------------------|
| Interest cost  | \$ 8              | 8                 |
| Expected return of assets                                      | (13)              | (6)               |
| Amortization of unrecognized net transition obligation (asset) | 1                 | 1                 |
| Net periodic pension cost                                      | \$ (4)            | 3                 |

**(7) Equity**Stockholders' Capital

The following is a detail of the stockholders' participation in the capital as of March 31, 2006 and December 31, 2005:

| Stockholder            | March 31,<br>2006 | December 31,<br>2005 |
|------------------------|-------------------|----------------------|
| Crosby Capital L.L.C.  | \$ 98.75          | 98.75                |
| Argosy Energy Corp. ** | 0.71              | 0.71                 |
| Dale E. Armstrong      | 0.41              | 0.41                 |
| Richard S. McKnight    | 0.13              | 0.13                 |
|                        | \$ 100.0          | 100.00               |

\*\* Argosy Energy Corp. is a general partner interest. All others are limited partnership interests. Net income is allocated according to the participation of each stockholder in the Company's capital.

Foreign Exchange Restrictions

In accordance with current legislation in Colombia, the branches of foreign companies in the oil industry are not under the obligation to refund to the Colombian exchange market the proceeds from their foreign currency sales either inside or outside the country. The net proceeds from oil exports may be used by the branches of oil companies to reimburse abroad the capital and profits from the operation in Colombia. As a result of this foreign exchange liberation, the branch cannot purchase foreign currency in the Colombian exchange market to remit profits, repatriate capital, repay external debt or pay foreign currency expenses.

Distributions to Partners

On March 30, 2006 the partners of Argosy Energy International resolved, with the majority vote of its partners, distribute the amount of \$2,500 on March 1, 2006 and \$750 on March 30, 2006, ratably to each of its partners.

(Continued)



## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

**(8) Operating Cost**

The following is a summary of operating cost incurred for the period ended March 31, 2006 and 2005:

|                                       | March 31,<br>2006 | March 31,<br>2005 |
|---------------------------------------|-------------------|-------------------|
| Direct labor                          | \$ 111            | 86                |
| Maintenance, materials and lubricants | 86                | 49                |
| Repairs - third party                 | 123               | 196               |
| General expenses - other              | 47                | 33                |
|                                       | \$ 367            | 364               |

**(9) Income Taxes**

All of the income and income tax was derived from activities of the Branch in Colombia.

Deferred Remittance Tax

Deferred remittance tax is calculated based upon commercial net income. Commercial net income of Colombian branches of foreign companies derived from exploration, development or production of hydrocarbons is levied an additional remittance tax of 7%.

The law establishes that when this income is reinvested in the country for five years, the payment of the remittance tax will be deferred, after which time the payment of this tax will be exonerated.

Under the law, reinvestment occurs when the net income remains five years within the equity of the entity.

Tax Reconciliation

Income tax expense attributable to income from continuing operations was \$1,126 and \$412 for the periods ended March 31, 2006 and 2005, and differed from the amounts computed by applying the Colombian income tax rate of 35% (the statutory tax rate of the partnership's Branch) to pretax income from continuing operations as a result of the following:

|                                 | March 31, 2006 |        | March 31, 2005 |        |
|---------------------------------|----------------|--------|----------------|--------|
|                                 | Amount         | %      | Amount         | %      |
| Income before taxes             | \$ 2,815       | 100.00 | 1,045          | 100.00 |
| Computed "Expected" tax expense | 985            | 35.00  | 366            | 35.00  |
| Tax expense                     | 1,126          | 40.00  | 412            | 39.43  |
| Difference                      | \$ 141         | 5.00   | 46             | 4.43   |

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

| Explanation:   | Basis | March 31, 2006 |       |        | March 31, 2005 |        |        |
|--|-------|----------------|-------|--------|----------------|--------|--------|
|  |       | Amount         | %     |        | Basis          | Amount | %      |
| Difference in principles and translation               | \$    | (312)          | (109) | (3.88) | (86)           | (30)   | (2.87) |
| Surcharge tax (10%)                                    |       |                | 92    | 3.28   |                | 34     | 3.25   |
| Remittance tax expense (7%)                            |       |                | 146   | 5.19   |                | 42     | 4.02   |
| Inflation adjustment                                   |       | (23)           | (8)   | (0.28) |                | -      | -      |
| No deductible expenses                                 |       | 9              | 3     | 0.11   |                | -      | -      |
| No deductible taxes (Industry and commerce, stamp tax) |       | 41             | 14    | 0.51   |                | -      | -      |
| Assessments to financial movements                     |       | 6              | 2     | 0.07   |                | -      | -      |
| Income not taxable                                     |       | 4              | 1     | 0.00   |                | -      | -      |
|  | \$    |                | 141   | 5.00   |                | 46     | 4.43   |

The deferred tax is originated in the following temporary differences as of March 31, 2006 and December 31, 2005:

|                                 | March 31,<br>2006 | December 31,<br>2005 |
|---------------------------------|-------------------|----------------------|
| Accrued liabilities             | \$ 201            | 201                  |
| Property, plant and equipment   | (674)             | (676)                |
| Net deferred tax liability      | \$ (473)          | (475)                |
| Roll forward of deferred taxes: |                   |                      |
| Beginning balance               | 475               | 223                  |
| Increase in year                | -                 | 352                  |
| Translation                     | (2)               | (100)                |
|                                 | \$ 473            | 475                  |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the branch will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2006. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(Continued)





ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements (Unaudited)

Major Changes Introduced by Law 863 (December 29, 2003)

- 1) An equity tax was created for fiscal years 2004, 2005 and 2006. Such tax must be liquidated applying at 0.3 % over the net equity at January 1<sup>st</sup> of each year. This applies to equities of 3.000 million pesos in 2004, 3.183 million pesos in 2005 and 3.344 million pesos in 2006.
- 2) The financial transaction tax increased from 3 per thousand to 4 per thousand and it is applicable through the year 2007.
- 3) Paid taxes are not deductible except for 80% of industrial and commercial and Property Taxes.
- 4) The 10% income tax surcharge (3.5%) is applicable for years 2003 through 2006. This payment is not deductible for tax purposes.

**(10) Settlement Agreement with Aviva Overseas Inc.**

Effective August 19, 2005 Argosy Energy International, LP, Argosy Energy Corp., Crosby Capital, LLC, and Aviva Overseas, Inc. entered into a settlement agreement which principal terms are as follows:

1. The parties agreed that the agreement is a negotiated resolution of various disputes between the parties.
2. Aviva Overseas, Inc. assigned and transferred all interests in the partnership, corresponding to 29.6196%, to Argosy Energy International, LP as a redemption of such interests.
3. Argosy Energy International, LP is required to make the following payments to Aviva Overseas, Inc.: an initial cash payment of \$300 as reimbursement to Aviva Overseas, Inc. for a portion of its cost incurred in connection with the disputes, a 90 day promissory note amounted to \$3,050, a two year promissory note in the amount of \$1,125 (the "Note", represented for 8 quarterly payments of \$153 beginning in November 2005, including interest at 8%), and an additional payment (described below) accrued in the amount of \$329 as of the agreement date. As of March 31, 2006, amounts outstanding under the agreement include \$990 due on the Note and \$310 accrued for the additional payment. The outstanding amount is payable as follows: \$614 in 2006 and \$686 in 2007.

The additional payment is calculated as follows: after the earlier of i) The date Argosy Energy makes final payment of the "Note", or (ii) after the occurrence of an event of default, Argosy shall make a payment in cash in an amount equal to (i) \$56,250 multiplied by the numeric amount by which the average daily closing price of the New York Mercantile Exchange nearby month contract for West Texas Intermediate crude oil over the note term exceeds \$55 per barrel, reduced by (ii) all interest paid by Argosy on the principal of the Note. The additional payment was recorded at the date of the settlement agreement based on a calculation of the required payment at that date.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements (Unaudited)

Crosby Capital, LLC has guaranteed the payments required by Argosy Energy International, LP.

The new ownership percentages in Argosy Energy International L.P., after the redemption of the partnership interest held by Aviva Overseas Inc. are as follows:

| Partner                   | Interest  | Type of interest |
|---------------------------|-----------|------------------|
| Crosby Capital L.L.C.     | 98.7491%  | Limited Partner  |
| Argosy Energy Corporation | 0.7104%   | General Partner  |
| Dale E. Armstrong         | 0.4122%   | Limited Partner  |
| Richard S. McKnight       | 0.1283%   | Limited Partner  |
| Total                     | 100.0000% |                  |

**(11) Disagreement Between Argosy Energy International and Ecopetrol**

As of March 31, 2006 the contracting parties of Guayuyaco Association Contract, Ecopetrol and Argosy Energy International, consulted with their legal advisors to clarify the procedure for allocation of oil produced and sold during the long term test of the Guayuyaco-1 and Guayuyaco-2 wells. Ecopetrol has advised Argosy of a material difference in the interpretation of the procedure established in the Clause 3.5 of Attachment-B of the Guayuyaco association Contract. Ecopetrol interprets the contract to provide that the extend test production up to a value equal to 30% of the direct exploration costs of the wells is for Ecopetrol's account only and serves as reimbursement of its 30% back in to the Guayuyaco discovery. Argosy's contention is that this amount is merely the recovery of 30% of the direct exploration costs of the wells and not exclusively for benefit of Ecopetrol. While Argosy believes its interpretation of the Guayuyaco Association Contract is correct, the resolution of this issue is still pending of agreement between the parties or determination through legal proceedings.

The estimated value of disputed production is \$2,361,188 which possible loss is shared 50% (\$1,180,594) with Solana Petroleum Exploration (Colombia) S.A. partner in the contract and 50% Argosy.

At this time no amount has been accrued in the financial statements.

**(12) Subsequent Events**

- The Company signed in May and June, 2006 two new exploration and production contracts with the National Hydrocarbons Agency (ANH) called Primavera and Mecaya, to explore and produce oil, respectively.

These contracts have a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

The contracts may be relinquished at the end of each phase after fulfillment of the agreed obligations.

•

On April 1, 2006 the partners of the partnership entered into a redemption agreement pursuant to which all of Dale E. Armstrong interest and Richard S. McKnight interest.

- On June 21, 2006 Gran Tierra Energy Inc. acquired all of the outstanding partnership interest in the Company.

(Continued)

**ARGOSY ENERGY INTERNATIONAL, LP**

Financial Statements

December 31, 2005 and 2004

With Independent Auditors' Report Thereon

**INDEPENDENT AUDITORS' REPORT**

Partners of  
Argosy Energy International, LP:

We have audited the accompanying balance sheets of Argosy Energy International, LP as of December 31, 2005 and 2004, and the related statements of income, partner's equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Argosy Energy International, LP as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG Ltda  
Bogotá, Colombia

July 28, 2006

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Statements of Income

Years ended December 31, 2005 and 2004

(Expressed in thousands of US dollars)

|   | 2005      | 2004  |
|---|-----------|-------|
| Oil sales to Ecopetrol                    | \$ 11,891 | 6,393 |
| Operating cost (note 9)                   | 2,452     | 2,060 |
| Depreciation, depletion and amortization  | 697       | 357   |
| General and administrative expenses       | 1,082     | 859   |
|   | 4,231     | 3,276 |
| Operating profit                          | 7,660     | 3,117 |
| Other income, net (note 10)               | 449       | 225   |
| Income before income and remittance taxes | 8,109     | 3,342 |
| Current income tax (note 11)              | 2,187     | 1,026 |
| Deferred income tax                       | 352       | 245   |
| Deferred remittance tax                   | 353       | 146   |
| Total income and remittance taxes         | 2,892     | 1,417 |
| Net Income                                | \$ 5,217  | 1,925 |

See accompanying notes to financial statements.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Balance Sheets

December 31, 2005 and 2004

(Expressed in thousands of US dollars)

| Assets  | 2005             | 2004          |
|---|------------------|---------------|
| <b>Current assets:</b>                        |                  |               |
| Cash and cash equivalents (note 3)            | \$ 7,124         | 6,954         |
| Accounts receivable, net (note 4)             | 951              | 584           |
| Accounts receivable reimbursement Ecopetrol   | 1,186            | -             |
| <b>Inventories:</b>                           |                  |               |
| Crude oil                                     | 218              | 154           |
| Materials                                     | 557              | 248           |
|   | 775              | 402           |
| <b>Total current assets</b>                   | <b>10,036</b>    | <b>7,940</b>  |
| <b>Other long-term assets</b>                 |                  |               |
| Property, plant and equipment (note 5):       | 16               | 10            |
| Unproved properties                           | 3,622            | 2,312         |
| Proved properties, net                        | 5,401            | 3,211         |
|   | 9,023            | 5,523         |
| <b>Total assets</b>                           | <b>\$ 19,075</b> | <b>13,473</b> |
| <b>Liabilities and Partners' Equity</b>       |                  |               |
| <b>Current liabilities:</b>                   |                  |               |
| Accounts payable                              | 4,979            | 1,745         |
| Tax payable                                   | 1,326            | 826           |
| Employee benefits                             | 103              | 88            |
| Accrued liabilities                           | 522              | 375           |
| <b>Total current liabilities</b>              | <b>6,930</b>     | <b>3,034</b>  |
| Long-term accounts payable (note 6)           | 686              | -             |
| Deferred income tax                           | 475              | 223           |
| Deferred remittance tax                       | 1,104            | 714           |
| Pension plan (note 7)                         | -                | 35            |
| <b>Total liabilities</b>                      | <b>9,195</b>     | <b>4,006</b>  |
| <b>Partners' equity (note 8)</b>              | <b>9,880</b>     | <b>9,467</b>  |
| <b>Total liabilities and Partners' equity</b> | <b>\$ 19,075</b> | <b>13,473</b> |

See accompanying notes to financial statements.

(Continued)





## ARGOSY ENERGY INTERNATIONAL, LP

## Statements of Cash Flows

Years ended December 31, 2005 and 2004

(Expressed in thousands of US dollars)

|  | 2005     | 2004  |
|--|----------|-------|
| Cash flows from operating activities:  |          |       |
| Net income   | \$ 5,217 | 1,925 |
| Adjustments to reconcile net income to net cash provided by operating activities:                  |          |       |
| Depreciation, depletion and amortization   | 697      | 357   |
| Bad debt allowance   | 116      | 239   |
| Deferred income tax  | 352      | 245   |
| Deferred remittance tax  | 353      | 146   |
| Pensions   | 24       | 59    |
| Changes in assets and liabilities:   |          |       |
| Accounts receivable  | (1,669)  | (191) |
| Inventories  | (373)    | 339   |
| Accounts payable   | 2,620    | 1,245 |
| Tax payable  | 500      | 716   |
| Employee benefits  | 15       | 28    |
| Accrued liabilities  | 147      | 102   |
| Deferred income tax  | (100)    | (4)   |
| Deferred remittance tax  | 37       | 58    |
| Net cash provided by operating activities  | 7,936    | 5,264 |
| Cash flows from investing activities:  |          |       |
| Increase in long term investments  | (65)     | (70)  |
| Additions to property, plant and equipment   | (4,197)  | (748) |
| Net cash used in investing activities  | (4,262)  | (818) |
| Cash flows used in financial activities - Redemption of partnership interest - Aviva Overseas Inc. |          |       |
|  | (3,504)  | -     |
| Net increase in cash and cash equivalents  | 170      | 4,446 |
| Cash and cash equivalents at beginning of year   | 6,954    | 2,508 |
| Cash and cash equivalents at end of year   | \$ 7,124 | 6,954 |

See accompanying notes to financial statements.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Statements of Partners' Equity

Years ended December 31, 2005 and 2004

(Expressed in thousands of US dollars)

|  | Limited<br>partners'<br>capital | General<br>partners'<br>capital | Total<br>partners'<br>equity |
|--|---------------------------------|---------------------------------|------------------------------|
| Balance as of December 31, 2003                                      | \$ 7,504                        | 38                              | 7,542                        |
| Net income   | 1,915                           | 10                              | 1,925                        |
| Balance as of December 31, 2004                                      | 9,419                           | 48                              | 9,467                        |
| Net income   | 5,180                           | 37                              | 5,217                        |
| Redemption of partnership interest -<br>Aviva Overseas Inc. (note 6) | (4,789)                         | (15)                            | (4,804)                      |
| Balance as of December 31, 2005                                      | \$ 9,810                        | 70                              | 9,880                        |

See accompanying notes to financial statements.

(Continued)

**ARGOSY ENERGY INTERNATIONAL, LP**

Notes to Financial Statements

December 31, 2005 and 2004

(Expressed in thousands of US dollars)

**(1) Business Activities**

Argosy Energy International, LP is a Utah (USA) Limited Partnership, which established a Colombian Branch in 1983.

Argosy Energy International, LP is engaged in the business of exploring for, developing and producing oil and gas. The principal properties and operations are located in Colombia, which are carried out through its Colombian Branch in the Putumayo, Cauca, Tolima and Cundinamarca Provinces. The oil production is sold to Empresa Colombiana de Petr leos, the Colombian National Oil Company, ("Ecopetrol").

There are risks involved in conducting oil and gas activities in remote, rugged and primitive regions of Colombia. The guerrillas have operated within Colombia for many years and expose the Company's operations to potentially detrimental activities. The guerrillas are present in the Putumayo and R o Magdalena areas where the Company's properties are located. Since 1998, the Company has only experienced minor attacks on pipelines and equipment.

**Operations**

As of December 31, 2005, Argosy was participating in the following Association Contracts signed with Ecopetrol and Exploration and Exploitation Contracts signed with the Hydrocarbons National Agency - ANH.

| <u>Contract</u> | <u>Participation</u> | <u>Operator</u> | <u>Phase</u> |
|-----------------|----------------------|-----------------|--------------|
| Santana         | 35%                  | ARGOSY          | Exploitation |
| Guayuyaco       | 70%                  | ARGOSY          | Exploitation |
| Aporte Putumayo | 100%                 | ARGOSY          | Abandonment  |
| R o Magdalena   | 70%                  | ARGOSY          | Exploration  |
| Talora          | 20%                  | ARGOSY          | Exploration  |
| Chaza           | 50%                  | ARGOSY          | Exploration  |

The first four contracts have been signed with ECOPETROL and the last two with ANH.

An association contracts are those where the Government participate as partner of the field through the national oil company - ECOPETROL.

Exploration and production contracts (E&P) are those signed with the ANH - "Agencia Nacional de Hidrocarburos" (National Agency for Hydrocarbons) in which the Government only receive royalties and taxes for the rights of exploration and production but there is not a participation from the national oil company - ECOPETROL or any other government entity.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

The main terms of the above-mentioned contracts are as follows:

**Santana Association Contract**

On May 27, 1987 (effective date July 27, 1987), Argosy Energy International, LP signed this association contract to explore for and produce oil, in the area called Santana. The contract is in its 19th year and the Company reduced the area to a 5 kilometer reserve area around each field. The remaining contract area is approximately 1,100 acres.

Under the terms of the contract with Ecopetrol, a minimum of 25% of all revenues from oil sold to Ecopetrol is paid in Colombian pesos, which may only be utilized in Colombia. However, this proportion can be modified through parties agreement.

**Aporte Putumayo - Association Contract**

The Aporte Putumayo area has been returned to the Government. Such devolution is subject to the approval of the environmental restoration of the region by the Ministry of Environment and the treatment of the abandonment of the wells agreed with Ecopetrol and the Ministry of Mines.

**Río Magdalena Association Contract**

On December 10, 2001 (effective date February 8, 2002), Argosy Energy International, LP and Ecopetrol signed this Association Contract, to explore and produce oil, in the area called Río Magdalena of approximately 145,000 acres, located in the Middle Magdalena region of Colombia in the provinces of Cundinamarca and Tolima.

The contract has a maximum duration of 28 years distributed as follows: an exploration period of 6 years and a production period of 22 years starting on the date of termination of the exploration period. The exploratory well, Popa-1 was drilled during June and July and is on the completion stage.

Upon finalization of each phase, Argosy has the option to cancel the contract having previously completed the obligations agreed for each phase.

**BT Letter Agreement**

On February 27, 2001 Argosy Energy International, LP signed a letter agreement with BT Operating Company for the acquisition and management of the Río Magdalena Exploration Area. BT and Argosy mutually agreed to pay their 50% share of costs under the terms of the Ecopetrol Association contract and provide certain services toward management and compliance of the obligations. As of December 31, 2005 BT had not met their obligations under this agreement and outstanding accounts receivable of \$355 related to their share of costs related to the Río Magdalena Association Contract were provisioned as bad debts.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

**Guayuyaco Association Contract**

On August 2, 2002 (effective date September 30, 2002) Argosy Energy International, LP signed this association contract with Ecopetrol, to explore and produce oil, in the area named Guayuyaco. This Association contract gives Argosy the right to explore potential reserves in prospects adjacent to the existing Santana oil field. The block is located in the Putumayo and Cauca provinces and covers approximately 52,000 acres originally held under the Santana Risk Sharing Agreement.

The Guayuyaco contract has a maximum duration of 27.5 years with an exploration period of 5.5 years and a production period of 22 years, which starts upon termination of the exploration period.

Argosy has the obligation to carry out the exploration work in two phases, which were completed. In the first phase, the Branch drilled the Inchiyaco -1 exploration well which was successful. During the second exploration phase, two wells were drilled, Guayuyaco-1 and Guayuyaco-2, which were successful. Therefore, on December 28, 2005, Ecopetrol accepted the Commerciality of the field.

**Solana Petroleum Exploration Commercial Agreement**

Argosy and Solana Petroleum Exploration entered into a commercial agreement in 2003 whereby, Solana through fulfillment of certain obligations could earn a participating interest in the Inchiyaco Prospect and have an option to enter the next exploration prospect under the Guayuyaco Association Contract. Inchiyaco-1 was drilled and completed as a producing well in 2003 resulting in Solana's sharing 26.21% interest in Argosy's net share of the prospect.

The commercial agreement was revised in 2004, giving Solana the right to share a 50% interest in Argosy's net share of the Guayuyaco association contract by paying 66.7% of two exploratory wells (Guayuyaco-1 and Juanambu-1) and 50% for a new seismic program and additional projects.

**Talora Exploration and Exploitation Contract**

On September 16, 2004, (effective date), Argosy and the National Hydrocarbons Agency (ANH) signed the Talora exploration and exploitation contract to explore and produce oil, in an area of approximately 108,000 acres located in Tolima and Cundinamarca Provinces.

The contract has a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

(Continued)

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

## Contractual Commitments:

| <u>Phase</u> | <u>Starting date</u> | <u>Obligations</u>    |
|--------------|----------------------|-----------------------|
| 3            | December 16, 2006    | One exploratory well. |
| 4            | December 16, 2007    | One exploratory well. |
| 5            | December 16, 2008    | One exploratory well. |
| 6            | December 16, 2009    | One exploratory well. |

The contract may be relinquished at the end of each phase after fulfillment of the agreed obligations.

**Chaza Exploration and Exploitation Contract**

On June 27, 2005 (effective date) Argosy and the National Hydrocarbons Agency (ANH) signed the Chaza exploration and exploitation contract to explore and produce oil, in an area of approximately 80,000 acres located in Putumayo and Cauca Provinces.

The contract has a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

The ANH Resolution 0217, dated September 13, 2005, approved the 2005 assignment of 50% interest of the contract to Solana Petroleum Exploration.

## Contractual Commitments:

| <u>Phase</u> | <u>Starting date</u> | <u>Obligations</u>    |
|--------------|----------------------|-----------------------|
| 2            | June 27, 2006        | One exploratory well. |
| 3            | June 27, 2007        | One exploratory well. |
| 4            | December 16, 2008    | One exploratory well. |
| 5            | December 16, 2009    | One exploratory well. |
| 6            | December 16, 2010    | One exploratory well. |

The contract may be relinquished at the end of each phase after fulfillment of the agreed obligations.

(Continued)

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

**(2) Summary of Significant Accounting Policies and Practices**

**(a) Foreign Currency Translation**

The transactions and accounts of the Company's operations denominated in currencies other than US dollars are re-measured into United States dollars in accordance with Statement of Financial Accounting Standards FAS 52. The United States dollar is used as the functional currency. Exchange adjustments resulting from foreign currency balances are recognized in expense or income in the current period.

**(b) Cash Equivalents**

Cash equivalents are highly liquid investments purchased with an original maturity of three months or less.

**(c) Inventories**

Inventories consist of crude oil and materials and supplies and are stated at the lower of cost or market.

**(d) Property, Plant and Equipment**

The Company follows the full cost method to account for exploration and development of oil and gas reserves whereby all productive and nonproductive costs are capitalized. The only cost center is Colombia. All capitalized costs plus the undiscounted future development costs of proved reserves are depleted using the unit of production method based on total proved reserves applicable to the country.

Proved oil and gas reserves are the estimated quantities of crude oil that geological and engineering data demonstrate with reasonable certainty can be recovered in future years from known reservoirs under existing economic and operating conditions considering future production and development costs.

Costs related to initial exploration activities with no proved reserves are initially capitalized and periodically evaluated for impairment. The Company capitalizes internal costs directly identified with exploration and development activities. The net capitalized costs of oil properties are subject to a ceiling test, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. If capitalized costs exceed this limit, the excess is charged to expense and reflected as additional accumulated depreciation, depletion and amortization.



ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

While the quantities of proved reserves require substantial judgment, the associated prices of oil reserves that are included in the discounted present value of our reserves are objectively determined. The ceiling test calculation requires use of prices and costs in effect as of the last day of the accounting period, which are generally held constant for the life of the properties. As a result, the present value is not necessarily an indication of the fair value of the reserves. Oil and gas prices have historically been volatile and the prevailing prices at any given time may not reflect our Partnership's or the industry's forecast of future prices.

Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a country.

Support equipment and facilities are depreciated using the unit of production method based on total reserves of the field related to the support equipment and facilities.

**(e) Environmental Liabilities and Expenditures**

Argosy accrues for losses associated with environmental remediation obligations when such losses are probable and can be reasonably estimated. These accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

**(f) Asset Retirement Obligations**

Liability for asset retirement obligation is considered to be negligible at this time, based on projected production profiles, expiry dates and terms of the Association Contracts for current operations. However, the Company has accrued the costs related to environmental remediation and abandonment of the wells belonging to Aporte Putumayo Contract.

**(g) Concentration of Credit Risks**

All of the company's production is sold to Ecopetrol in which the sale price is agreed between both parts, according to local regulations in Colombia.

**(h) Income Taxes**

Deferred Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss.

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**(i) Financial Instruments Fair Value**

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those instruments. The carrying value of other on-balance-sheet financial instruments, approximates fair value, and the cost, if any, to terminate off-balance-sheet financial instruments is not significant.

**(j) Employee Benefits**

The Company recognizes the obligations with its employees in accordance with the current Colombian labor law. These obligations include the severance indemnity and the legal service bonus each one equivalent to a monthly salary per year and interest on severance at the rate of 12% on the balance of severance indemnities paid. The relevant liability for these two concepts is shown under the "Employee benefits" account as current liabilities at the closing of the period.

**(k) Defined Benefit Pension Plan**

The Company has a defined benefit pension plan covering one employee. The benefits are based on years of service, age and the employee's compensation. Currently, the cost of this program is not being funded. The actuarial study is performed at the end of each year in accordance with the guidelines established by FAS 87.

**(l) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period.

**(m) Revenue Recognition**

The Company recognizes revenue when the crude oil is delivered to Ecopetrol.

Ecopetrol pays the oil sales invoicing 25% in local currency and the 75% in US Dollars, according to the terms of the Oil Sales Contract executed between Ecopetrol and Argosy, through which the oil sale price is fixed, with expiration dated November 1, 2006.

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

**(n) Management Fee**

The Company accounts for the management fees received from its partners as operator of the contracts as a less value of the operating costs.

**(o) Comprehensive Income**

For each period presented in the accompanying statements of income, comprehensive income and net income are the same amount.

**(3) Cash and Cash Equivalents**

The following is a summary of cash and cash equivalents as of December 31:

|                               | 2005     | 2004  |
|-------------------------------|----------|-------|
| Held in United States dollars | \$ 6,329 | 6,454 |
| Held in Colombian pesos       | 394      | 185   |
| Short-term investments        | 401      | 315   |
|                               | \$ 7,124 | 6,954 |

**(4) Accounts Receivable**

The following is a summary of accounts receivable as of December 31:

|                              | 2005   | 2004  |
|------------------------------|--------|-------|
| Trade                        | \$ 675 | 81    |
| B.T. Río Magdalena Agreement | 355    | 239   |
| Vendor advances              | 172    | 60    |
| Solana joint account         | -      | 324   |
| Other                        | 104    | 119   |
|                              | 1,306  | 823   |
| Less allowance for bad debts | (355)  | (239) |
|                              | \$ 951 | 584   |

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

**(5) Property, Plant and Equipment**

The following is a summary of property, plant and equipment as of December 31:

|   | 2005     | 2004   |
|---|----------|--------|
| <b>Oil properties:</b>  |          |        |
| Unproved  | \$ 3,622 | 2,312  |
| Proved  | 59,096   | 56,218 |
|   | 62,718   | 58,530 |
| Less accumulated depreciation, depletion,<br>and amortization | 53,695   | 53,007 |
|   | \$ 9,023 | 5,523  |

**Capitalized Cost Unproved  
Excluded From the Capitalized Cost Being Amortized**

| AFE                                 | Contract                 | Detail                              | Exploration Cost |        | Cost Incurred |      | Month<br>Anticipated<br>to be<br>included<br>in<br>Amortization |
|-------------------------------------|--------------------------|-------------------------------------|------------------|--------|---------------|------|---|
|                                     |                          |                                     | Dec-04           | Dec-05 | 2004          | 2005 |   |
| <b>MARY WELLWEST<br/>PROSPECT</b>   | <b>Santana</b>           | Geological &<br>Geophysical<br>Data | 287              | 287    | 287           |      | Dec-06  |
| <b>MARY WEST WELL<br/>TESTING</b>   | <b>Santana</b>           | Geological &<br>Geophysical<br>Data | 93               | 93     | 93            |      | Dec-06  |
| <b>EXPL. 100% NEW<br/>PROJECTS</b>  | <b>New<br/>Projects</b>  | Geological &<br>Geophysical<br>Data | 253              | 363    | 253           | 110  | Dec-06  |
| <b>EXPL. 100%<br/>SANTANA</b>       | <b>Guayuyaco</b>         | Geological &<br>Geophysical<br>Data | 1,044            | 1,044  | 1,044         |      | Dec-06  |
| <b>EXPL. 100% RIO<br/>MAGDALENA</b> | <b>Rio<br/>Magdalena</b> | Sesimic<br>Program                  | 634              | 808    | 634           | 174  | Mar-07  |
| <b>TALORA PROJECT</b>               | <b>Talora</b>            | Sesimic<br>Program                  | 1                | 89     | 1             | 88   | Sep-07  |
| <b>SEISMIC<br/>GUAYUYACO</b>        | <b>Guayuyaco</b>         | Sesimic<br>Program                  | 0                | 431    |               | 431  | Dec-06  |
| <b>SEISMIC CHAZA</b>                | <b>Chaza</b>             | Sesimic<br>Program                  | 0                | 505    |               | 505  | Sep-07  |
| <b>POPA-1 WELL<br/>EXPLORATORY</b>  | <b>Rio<br/>Magdalena</b> | Road and<br>Location Well           | 0                | 0      |               |      | Mar-07  |
|                                     | <b>Guayuyaco</b>         |                                     | 0                | 2      |               | 2    | Jun-07  |

|   |                           |              |              |              |              |
|---|---------------------------|--------------|--------------|--------------|--------------|
| <b>JUANAMBU-1<br/>WELL<br/>EXPLORATORY</b>  | Road and<br>Location Well |              |              |              |              |
|   |                           |              |              |              | 0            |
| <b>Total Unproved<br/>Exploration Costs</b> |                           | <b>2,312</b> | <b>3,622</b> | <b>2,312</b> | <b>1,310</b> |

All capital excluded from capitalized cost being amortized relates to exploration cost. No acquisition costs, development costs or capitalized interest costs are identified.

**(6) Settlement Agreement with Aviva Overseas Inc**

Effective August 19, 2005 Argosy Energy International, LP, Argosy Energy Corp., Crosby Capital, LLC, and Aviva Overseas, Inc. entered into a settlement agreement which principal terms are as follows:

1. The parties agreed that the agreement is a negotiated resolution of various disputes between the parties.
2. Aviva Overseas, Inc. assigned and transferred all interests in the partnership, corresponding to 29.6196%, to Argosy Energy International, LP as a redemption of such interests.
3. Argosy Energy International, LP is required to make the following payments to Aviva Overseas, Inc.: an initial cash payment of \$300 as reimbursement to Aviva Overseas, Inc. for a portion of its cost incurred in connection with the disputes, a 90 day promissory note amounted to \$3,050, a two year promissory note in the amount of \$1,125 (the "Note", represented for 8 quarterly payments of \$153 beginning in November 2005, including interest at 8%), and an additional payment (described below) accrued in the amount of \$329 as of the agreement date. As of December 31, 2005, amounts outstanding under the agreement include \$990 due on the Note and \$310 accrued for the additional payment. The outstanding amount is payable as follows: \$614 in 2006 and \$686 in 2007.

The additional payment is calculated as follows: after the earlier of i) The date Argosy Energy makes final payment of the “Note”, or (ii) after the occurrence of an event of default, Argosy shall make a payment in cash in an amount equal to (i) \$56,250 multiplied by the numeric amount by which the average daily closing price of the New York Mercantile Exchange nearby month contract for West Texas Intermediate crude oil over the note term exceeds \$55 per barrel, reduced by (ii) all interest paid by Argosy on the principal of the Note. The additional payment was recorded at the date of the settlement agreement based on a calculation of the required payment at that date.

Crosby Capital, LLC has guaranteed the payments required by Argosy Energy International, LP.

The new ownership percentages in Argosy Energy International L.P., after the redemption of the partnership interest held by Aviva Overseas Inc. is as follows:

| Partner                   | Interest  | Type of interest |
|---------------------------|-----------|------------------|
| Crosby Capital L.L.C.     | 98.7491%  | Limited Partner  |
| Argosy Energy Corporation | 0.7104%   | General Partner  |
| Dale E. Armstrong         | 0.4122%   | Limited Partner  |
| Richard S. McKnight       | 0.1283%   | Limited Partner  |
| Total                     | 100.0000% |                  |

**(7) Pension Plan**

Costs of the retirement plan are accrued based on various assumptions and discount rates, as described below. The actuarial assumptions used could change in the near term as a result of changes in expected future trends and other factors, which depending on the nature of the changes, could cause increases or decreases in the liabilities accrued.

The components of pension cost as of December 31 are:

|  | 2005    | 2004 |
|--|---------|------|
| Interest cost  | \$ 34   | 31   |
| Expected return of assets                                      | (48)    | (30) |
| Amortization of unrecognized net transition obligation (asset) | 3       | 3    |
| Net periodic pension cost                                      | \$ (11) | 4    |
| Changes in plan assets:  |         |      |
| Fund assets at beginning of year                               | 300     | 232  |
| Interest earned  | 61      | 68   |
| Fund assets at end of year                                     | \$ 361  | 300  |

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

|   | 2005 | 2004 |
|---|------|------|
| Funded status:                                    |      |      |
| Projected benefit obligation                      | 359  | 335  |
| Assets at fair value                              | 361  | 300  |
| Funded status                                     | 2    | (35) |
| Unrecognized net transaction obligation remaining | 31   | 32   |
| Unrecognized prior service cost                   | -    | -    |
| Adjustment additional minimum liability           | (2)  | (5)  |
| Unrecognized net loss or (gain)                   | (29) | (27) |
| Prepaid (unfunded accrued) pension cost           | \$ 2 | (35) |

The Company's fund asset to cover pension benefits is represented in a mutual fund amounting to \$361 and \$300, in 2005 and 2004, respectively.

|   | 2005 | 2004 |
|---|------|------|
| Change in benefit obligation            |      |      |
| Benefit obligation at beginning of year | 335  | 276  |
| Interest Cost                           | 34   | 31   |
| Benefits Paid                           | (24) | (22) |
| Foreign Currency Exchange               | 14   | 50   |
| Total Activity                          | 24   | 59   |
| Benefit obligation at end of year       | 359  | 335  |

The weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

|                               | 2005 | 2004 |
|-------------------------------|------|------|
|                               | %    | %    |
| Discount rate                 | 9.3  | 10.5 |
| Rate of compensation increase | 4.7  | 6.0  |

Estimated future benefit payments are expected to be paid as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2006        | 25            |
| 2007        | 23            |
| 2008        | 22            |
| 2009        | 20            |
| 2010        | 19            |
| 2011- 2016  | 250           |

No expected contributions will be made to the plan during the year 2006.





## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

**(8) Equity**Stockholders' Capital

The following is a detail of the stockholders' participation in the capital:

| Stockholders            | 2005<br>% | 2004<br>% |
|-------------------------|-----------|-----------|
| Crosby Capital L.L.C.   | 98.75     | 69.50     |
| Argosy Energy Corp. .** | 0.71      | 0.50      |
| Aviva Overseas, Inc     | -         | 29.62     |
| Dale E. Armstrong       | 0.41      | 0.29      |
| Richard S. McKnight     | 0.13      | 0.09      |
|                         | 100.00    | 100.00    |

\*\* Argosy Energy Corp. is a general partner interest. All others are limited partnership interests. Net income is allocated according to the participation of each stockholder in the Company's capital.

Foreign Exchange Restrictions

In accordance with current legislation in Colombia, the branches of foreign companies in the oil industry are not under the obligation to refund to the Colombian exchange market the proceeds from their foreign currency sales either inside or outside the country. The net proceeds from oil exports may be used by the branches of oil companies to reimburse abroad the capital and profits from the operation in Colombia. As a result of this foreign exchange liberation, the branch cannot purchase foreign currency in the Colombian exchange market to remit profits, repatriate capital, repay external debt or pay foreign currency expenses.

**(9) Operating Cost**

The following is a summary of operating cost incurred as of December 31:

|                                       | 2005     | 2004  |
|---------------------------------------|----------|-------|
| Direct labor                          | \$ 383   | 316   |
| Maintenance, materials and lubricants | 417      | 417   |
| Repairs - third party                 | 700      | 752   |
| General expenses - others             | 952      | 575   |
|                                       | \$ 2,452 | 2,060 |

**(10) Other Income and Expenses, net**

The following is a summary of other income and expenses, net as of December 31:

|                                 | 2005   | 2004  |
|---------------------------------|--------|-------|
| Oil transportation              | \$ 18  | 146   |
| Financial income                | 171    | 65    |
| Insurance reimbursement         | 126    | -     |
| Other income                    | 217    | 162   |
| Foreign translation gain (loss) | 33     | (148) |
| Allowance for bad debts         | (116)  | -     |
|                                 | \$ 449 | 225   |

**(11) Income Taxes**

All of the income and income tax was derived from activities of the branch in Colombia.

Deferred Remittance Tax

Deferred remittance tax is calculated based upon commercial net income. Commercial net income of Colombian branches of foreign companies derived from exploration, development or production of hydrocarbons is levied an additional remittance tax of 7%.

The law establishes that when this income is reinvested in the country for five years, the payment of the remittance tax will be deferred, after which time the payment of this tax will be exonerated.

Under the law, reinvestment occurs when the net income remains five years within the equity of the entity.

Tax reconciliation

Income tax expense attributable to income from continuing operations was \$2,892 and \$1,417 for the years ended December 31, 2005 and 2004, respectively, and differed from the amounts computed by applying the Colombian income tax rate of 35% (the statutory tax rate of the partnership's Branch) to pretax income from continuing operations as a result of the following:

|                                 | 2005     |          | 2004  |          |
|---------------------------------|----------|----------|-------|----------|
|                                 | Basis    | Amount % | Basis | Amount % |
| Income before taxes             | \$ 8,109 | 100.00   | 3,342 | 100.00   |
| Computed "Expected" tax expense | 2,838    | 35.00    | 1,170 | 35.00    |
| Tax expense                     | 2,892    | 35.66    | 1,417 | 42.40    |
| Difference                      | \$ 54    | 0.66     | 247   | 7.40     |

## ARGOSY ENERGY INTERNATIONAL, LP

## Notes to Financial Statements

| Explanation:                           | Basis    | 2005   |        | Basis | 2004   |        |
|--|----------|--------|--------|-------|--------|--------|
|  |          | Amount | %      |       | Amount | %      |
| Difference in principles               | \$ (593) | (207)  | (2.56) | (49)  | (17)   | (0.51) |
| Surcharge tax (10%)                    |          | 199    | 2.45   |       | 93     | 2.79   |
| Remittance tax expense (7%)            |          | 353    | 4.35   |       | 146    | 4.37   |
| Inflation adjustment                   | (53)     | (19)   | (0.23) | (21)  | (7)    | (0.22) |
| No deductible expense                  | 32       | 11     | 0.14   | 16    | 6      | 0.17   |
| No deductible tax (Stamp tax)          | 130      | 46     | 0.56   | 57    | 20     | 0.60   |
| Assessments to financial movements     | 45       | 16     | 0.19   | 13    | 4      | 0.13   |
| Equity tax                             | 25       | 9      | 0.11   | 31    | 11     | 0.33   |
| Deduction fixed real productive assets | (1,014)  | (355)  | (4.38) |       |        |        |
| Income not taxable                     | 4        | 1      | 0.03   | (23)  | (9)    | (0.26) |
|  | \$       | 54     | 0.66   |       | 247    | 7.40   |

The deferred tax is the following:

|                                  | 2005     | 2004  |
|----------------------------------|----------|-------|
| Accrued liabilities              | \$ 201   | 183   |
| Property, plant and equipment    | (676)    | (406) |
| Net deferred tax liability       | \$ (475) | (223) |
| Roll forward of deferred taxes:  |          |       |
| Net deferred tax to December 31: |          |       |
| Beginning balance                | 223      | (18)  |
| Increase in year                 | 352      | 245   |
| Translation                      | (100)    | (4)   |
|                                  | \$ 475   | 223   |

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the branch will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2005 and 2004. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.



ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

Major Changes Introduced by Law 863 (December 29, 2003)

- 1) An equity tax was created for fiscal years 2004, 2005 and 2006. Such tax must be liquidated applying at 0.3 % over the net equity at January 1<sup>st</sup> of each year. This applies to equities of 3.000 millions pesos in 2004, 3.183 millions pesos in 2005 and 3.344 millions pesos in 2006.
- 2) The financial transaction tax increased from 3 per thousand to 4 per thousand and it is applicable through the year 2007.
- 3) Paid taxes are not deductible except for 80% of industrial and commercial and property Taxes.
- 4) The 10% income tax surcharge (3.5%) is applicable for years 2003 through 2006. This payment is not deductible for tax purposes.

**(12) Disagreement Between Argosy Energy International and Ecopetrol**

As of December 31, 2005 the contracting parties of the Guayuyaco Association Contract, Ecopetrol and Argosy, consulted with their legal advisors to clarify the procedure for allocation of oil produced and sold during the long-term test of the Guayuyaco-1 and Guayuyaco-2 wells. Ecopetrol has advised Argosy of a material difference in the interpretation of the procedure established in Clause 3.5 of Attachment-B to the Guayuyaco Association Contract. Ecopetrol interprets the contract to provide that the extended test production up to a value equal to 30% of the direct exploration costs of the wells is for Ecopetrol's account only and serves as reimbursement of its 30% back-in to the Guayuyaco discovery. Argosy's contention is that this amount is merely the recovery of 30% of the direct exploration costs of the wells and not exclusively for the benefit of Ecopetrol. While Argosy believes its interpretation of the Guayuyaco Association Contract is correct, the resolution of this issue is pending agreement of the parties or determination through legal proceedings. At this time no amount has been accrued in the financial statements as it is not considered probable that a loss will be incurred.

The estimated value of the disputed production is US\$2,361,188, which possible loss is shared 50% (US\$1,180,594) with the Argosy's Guayuyaco partner, Solana Petroleum Exploration (Colombia) S.A.

ARGOSY ENERGY INTERNATIONAL, LP

Notes to Financial Statements

**(13) Subsequent Events**

- The Company signed in May and June, 2006 two new exploration and production contracts with the National Hydrocarbons Agency (ANH) called Primavera and Mecaya, to explore and produce oil, respectively.

These contracts have a maximum duration of 30 years with an exploration period of 6 years and a production period of 24 years, which starts upon the date in which Argosy receives the oil field commerciality declaration from ANH.

The contracts may be relinquished at the end of each phase after fulfillment of the agreed obligations.

- On April 1, 2006 the partners of the partnership entered into a redemption agreement pursuant to which all of Dale E. Armstrong interest and Richard S. McKnight interest.
- On June 21, 2006 Gran Tierra Energy Inc. acquired all of the outstanding partnership interest in the Company.

**Supplemental Oil and Gas Information (Unaudited)**

The following tables set forth Argosy's net interests in quantities of proved developed and undeveloped reserves of crude oil. Crude oil reserves represent the Argosy-own oil reserves projected for properties located in Colombia. The reserves are stated after applicable royalties. These estimates include reserves in which Argosy holds an economic interest under production-sharing contracts. The studies to estimated proved oil reserves for the years 2003, 2004 and 2005 were prepared by Huddleston & Co., Inc.

In accordance with SFAS No. 69 and Securities and Exchange Commission ("SEC") rules and regulations, the following information is presented with regard oil proved reserves, all of which are located in Colombia. These rules require inclusion as a supplement to the basic financial statements a standardized measure of discounted future net cash flows relating to proved oil and gas reserves. The standardized measure, in management's opinion, should be examined with caution. The bases for these disclosures are independent petroleum engineer's reserve studies which contains imprecise estimates of quantities and rates of production of reserves. Revision of prior year estimates can have a significant impact on the results. Also, exploration and production improvement costs in one year may significantly change previous estimates of proved reserves and their valuation. Values of unproved properties and anticipated future price, and cost increases or decreases are not considered. Therefore, the standardized measure is not necessarily a "best estimate" of the fair value of oil and gas properties or of future net cash flows.

**I-Oil Reserves Information**  
(In barrels)

**Proved Developed and Undeveloped Reserves**

|                                     |                  |
|-------------------------------------|------------------|
| <b>Balance at December 31, 2003</b> | 1,845,654        |
| Revision of previous estimates      | 168,766          |
| Improved recovery                   | -                |
| Purchases of proved reserves        | -                |
| Extension and discoveries           | -                |
| Production                          | (197,027)        |
| Sales                               | -                |
| <b>Balance at December 31, 2004</b> | 1,817,393        |
| Revision of previous estimates      | (18,936)         |
| Improved recovery                   | -                |
| Purchases of proved reserves        | -                |
| Extension and discoveries           | 822,007          |
| Production                          | (283,795)        |
| Sales                               | -                |
| <b>Balance at December 31, 2005</b> | <b>2,336,669</b> |
| <b>Proved developed reserves</b>    |                  |
| December 31, 2004                   | 1,050,234        |
| December 31, 2005                   | 1,233,130        |



**II- Capitalized Costs Relating to Oil And Gas Producing Activities**  
(In thousands)

|  | As of December 31, |              |
|--|--------------------|--------------|
|  | 2005               | 2004         |
| Oil & gas properties:                                |                    |              |
| Unproved   | \$ 3,622           | 2,312        |
| Proved   | 59,096             | 56,218       |
| Accumulated depreciation, depletion and amortization | (53,695)           | (53,007)     |
| <b>Net capitalized costs</b>                         | <b>\$ 9,023</b>    | <b>5,523</b> |

**III- Cost Incurred in Oil And Gas Property Acquisition,  
Exploration and Development Activities**  
(In thousands)

|                             | For the year ended<br>December 31, |            |
|-----------------------------|------------------------------------|------------|
|                             | 2005                               | 2004       |
| Property acquisitions costs | \$ -                               | -          |
| Exploration costs           | -                                  | 405        |
| Development costs           | 4,503                              | 45         |
| <b>Costs incurred</b>       | <b>\$ 4,503</b>                    | <b>450</b> |

**IV- Results of operations for producing activities**  
(In thousands)

|  | <b>For the year ended<br/>December 31,</b> |              |
|--|--|--------------|
|  | <b>2005</b>                                | <b>2004</b>  |
| Revenues - Oil sales                     | \$ 11,891                                  | 6,393        |
| Production costs                         | (2,452)                                    | (2,060)      |
| Depreciation, depletion and amortization | (697)                                      | (357)        |
| Income tax expenses                      | (2,892)                                    | (1,417)      |
| <b>Results of operations</b>             | <b>\$ 5,850</b>                            | <b>2,559</b> |

**V- Standardized Measure of Discounted Future Net Cash Flows**  
(In thousands)

|   | <b>As of December 31,</b> |               |
|---|---------------------------|---------------|
|   | <b>2005</b>               | <b>2004</b>   |
| Future cash inflows                     | \$ 112,721                | 64,626        |
| Future production and development costs | (22,614)                  | (12,251)      |
| Future income tax expense               | (32,562)                  | (19,422)      |
| Future net cash flows                   | 57,545                    | 32,953        |
| 10% Annual discount factor              | (18,584)                  | (11,009)      |
| <b>Standardized measure</b>             | <b>\$ 38,961</b>          | <b>21,944</b> |

**Changes in the Standardized Measure of Discounted Future  
Net Cash Flows From Proved Reserve Quantities During 2005**

|  |    |          |
|--|----|----------|
| Balance as of December 31, 2004                                      | \$ | 21,944   |
| Sales and transfers of oil and gas produced, net of production costs |    | (9,439)  |
| Net changes in prices and production costs                           |    | 17,847   |
| Extensions, discoveries and improved recover, net of related costs   |    | 31,943   |
| Development costs incurred during the period                         |    | (4,503)  |
| Revision of previous quantity estimates                              |    | (550)    |
| Accretion of discount  |    | (7,575)  |
| Net change in income taxes   |    | (13,140) |
| Other  |    | 2,434    |
| Balance as of December 31, 2005                                      | \$ | 38,961   |

**GRAN TIERRA ENERGY, INC.**

**PRO FORMA FINANCIAL STATEMENTS**

**UNAUDITED FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2006 AND THE YEAR ENDED DECEMBER 31, 2005**

On June 20, 2006, Gran Tierra Energy acquired all of the limited partnership interest of Argosy Energy International (“Argosy”) and all of the issued and outstanding capital stock of Argosy Energy Corp (“AEC”), a Delaware corporation and the general partner of Argosy. Gran Tierra paid US \$37.5 million in cash, issued 870,647 shares of our common stock and granted participation rights (including overriding royalty interests and net profits interests) in Argosy’s assets valued at \$1,000,000. The value of the royalty and net profits interests was deemed appropriate by both parties based on the present value of expected future cash flows.

The accompanying unaudited pro forma consolidated financial statements (“pro forma statements”) reflect the above acquisition as well as the acquisition of the Palmar Largo Property which occurred on September 1, 2005 for \$6,969,659, assuming they occurred on January 1, 2005.

The pro forma statements have been prepared for inclusion in a Current Report on Form 8-K to be filed by the Company and have been prepared from, and should be read in conjunction with, the following:

- Gran Tierra Energy’s audited consolidated financial statements for the period from incorporation on January 26, 2005 to December 31, 2005.
- Gran Tierra Energy’s unaudited consolidated financial statements for the nine months ended September 30, 2006.
- Argosy’s audited financial statements for the year ended December 31, 2005;
- Audited schedules of revenues, royalties and operating costs of the Palmar Largo Property for the eight months ended August 31, 2005.

**Gran Tierra Energy Inc.**  
**Pro Forma Statement of Operations (unaudited)**  
**For the period January 1 to September 30, 2006**  
**Stated in thousands of US dollars**

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|   | <b>Gran<br/>Tierra<br/>Energy</b> | <b>Argosy<br/>Energy</b> | <b>Pro forma<br/>Adjustments</b> | <b>Pro forma<br/>Consolidated</b> |
|---|-----------------------------------|--------------------------|----------------------------------|-----------------------------------|
| <b>Revenue</b>                                  |                                   |                          |                                  |                                   |
| Oil and Natural Gas Sales                       | 8,359                             | 7,226                    | --                               | 15,585                            |
| Interest Revenue                                | 196                               | --                       | --                               | 196                               |
|   | 8,555                             | 7,226                    | --                               | 15,780                            |
| <b>Expenses</b>                                 |                                   |                          |                                  |                                   |
| Operating                                       | 2,703                             | 891                      | --                               | 3,594                             |
| General and Administrative                      | 4,256                             | 520                      | --                               | 4,776                             |
| Other Income and expenses, net                  | --                                | (235)                    | --                               | (235)                             |
| Interest Expense                                | 3                                 | --                       | --                               | 3                                 |
| Depletion, depreciation and accretion (Note 2a) | 2,324                             | 372                      | 1,523                            | 4,219                             |
| Foreign exchange gain                           | 278                               | --                       | --                               | 278                               |
|   | 9,564                             | 1,548                    | 1,523                            | 12,635                            |
| Earnings (loss) before income taxes             | (1,009)                           | 5,678                    | (1,523)                          | 3,145                             |
| Provision for income taxes (Note 2b)            | (848)                             | (1,966)                  | 533                              | (2,281)                           |
| Net Earnings (loss) for the period              | (1,857)                           | 3,712                    | (990)                            | 865                               |
| Basic Earnings (loss) per share                 | (0.02)                            |                          |                                  | 0.01                              |
| Diluted Earnings (loss) per share               | (0.02)                            |                          |                                  | 0.01                              |
| Weighted Average Shares - Basic                 | 63,043,998                        |                          | 25,870,647                       | 88,914,645                        |
| Weighted Average Shares - Diluted               | 98,200,913                        |                          | 25,870,647                       | 124,071,560                       |

**Gran Tierra Energy Inc.**  
**Pro Forma Statement of Operations (unaudited)**  
**For the period January 1 to December 31, 2005**  
**Stated in thousands of US dollars**

|   | <b>Gran<br/>Tierra<br/>Energy</b> | <b>Argosy<br/>Energy</b> | <b>Pro Forma<br/>Adjustment</b> | <b>Pro Forma<br/>Consolidated<br/>Subtotal</b> | <b>Palmar<br/>Largo<br/>Property</b> | <b>Pro Forma<br/>Consolidated</b> |
|---|-----------------------------------|--------------------------|---------------------------------|--|--------------------------------------|-----------------------------------|
| Revenue   | 1,059                             | 11,891                   | -                               | 12,950   | 2,560                                | 15,510                            |
| Operating Expense (Note 2c)                         | 395                               | 2,452                    | -                               | 2,847  | 1,081                                | 3,928                             |
|   | 664                               | 9,439                    | -                               | 10,103   | 1,479                                | 11,582                            |
| <b>Other Expenses</b>                               |                                   |                          |                                 |  |                                      |                                   |
| General and Administrative                          | 2,482                             | 1,082                    | -                               | 3,564  | -                                    | -                                 |
| Depreciation, Depletion and Accretion (Note 2d)     | 462                               | 697                      | 2,322                           | 3,481  | -                                    | -                                 |
| Foreign Exchange Gain                               | (31)                              |                          |                                 | (31)   | -                                    | -                                 |
| Other Income, Net                                   |                                   | (449)                    | -                               | (449)  | -                                    | -                                 |
|   | 2,913                             | 1,330                    | 2,322                           | 6,565  | -                                    | -                                 |
| Earnings (Loss) Before Income Taxes                 | (2,249)                           | 8,109                    | (2,322)                         | 3,538  | -                                    | -                                 |
| Provision For Income and Remittance Taxes (Note 2e) | 29                                | (2,892)                  | 894                             | (1,969)  | -                                    | -                                 |
| Earnings (Loss) for the period                      | (2,220)                           | 5,217                    | (1,428)                         | 1,569  | -                                    | -                                 |
| Basic Earnings Per Share (Note 4)                   | (0.06)                            | -                        | -                               | 0.04   | -                                    | -                                 |
| Diluted Earnings Per Share (Note 4)                 | (0.06)                            | -                        | -                               | 0.03   | -                                    | -                                 |
| Weighted Average Shares - Basic                     | 13,538,149                        |                          | 25,870,647                      | 39,408,796                                     |                                      |                                   |
| Weighted Average Shares - Diluted                   | 20,680,702                        |                          | 25,870,647                      | 46,551,349                                     |                                      |                                   |

**GRAN TIERRA ENERGY, INC.**

**Notes to the Pro forma Consolidated Financial Statements  
For the Nine-Month Period Ended September 30, 2006 and the  
Year Ended December 31, 2005**

**(Unaudited)**

**(Tabular amounts expressed in thousands of US dollars)**

**1. BASIS OF PRESENTATION**

These pro forma consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and Gran Tierra Energy’s accounting policies, as disclosed in Note 2 of the audited financial statements of Gran Tierra Energy for the period ended December 31, 2005.

The pro forma consolidated financial statements are based on the estimates and assumptions included in these notes and include all adjustments necessary for the fair presentation of the transactions in accordance with GAAP.

Omitted Financial Information - Historical financial statements reflecting financial position, results of operations and cash flows required by accounting principles generally accepted in the United States of America are not presented for the Palmar Largo property as such information is not available on an individual property basis and not meaningful to the Palmar Largo Properties. Historically, no allocation of general and administrative, interest, corporate taxes accretion of asset retirement obligations, depreciation, depletion and amortization was made to the Palmar Largo Property. Accordingly, the statements of revenue, royalty and operating expenses are presented in lieu of the financial statements required under Rule 3-01 of the Securities and Exchange Commission Regulation S-X.

The accompanying audited statements of revenues, royalties and operating expenses were derived from historical accounting records and reflect the revenues, royalties and direct operating expenses of the Palmar Largo property. Production and direct operating cost information was acquired from Plus Petrol, the operator. Price, royalty, transportation and selling cost information was acquired from Dong Won Corporation (the seller). Such amounts may not be representative of future operations. The statements do not include depreciation, depletion and amortization, general and administrative expenses, income taxes or interest expense as these costs may not be comparable to the expenses expected to be incurred by the Company on a prospective basis

These pro forma consolidated financial statements are not intended to reflect results from operations or the financial position which would have actually resulted had the acquisition been effected on the dates indicated. These pro forma statements do not include any cost savings or other synergies that may result from the transaction. Moreover, these pro forma statements are not intended to be indicative of the results of operations or financial position which may be obtained in the future.

**GRAN TIERRA ENERGY, INC.**

**Notes to the Pro forma Consolidated Financial Statements  
For the Nine-Month Period Ended September 30, 2006 and the  
Year Ended December 31, 2005**

**(Unaudited)**

**(Tabular amounts expressed in thousands of US dollars)**

**2. PRO FORMA ADJUSTMENTS TO THE CONSOLIDATED  
STATEMENTS OF OPERATIONS**

The following adjustments have been made to reflect the transactions described above as if the transactions had occurred on January 1, 2005 for purposes of the pro forma consolidated statement of operations for the nine months ended September 30, 2006:

- a. Depreciation, depletion and accretion expense (DD&A) has been increased by \$1,523 thousand to reflect the additional DD&A from the Argosy asset purchase from January 1 to June 20, 2006. Additional DD&A is due to the increased cost basis of Argosy assets from recording them at full value on the acquisition date (of January 1, 2005 for pro forma purposes.)
- b. Provision for income taxes has been decreased by \$533 thousand to account for the tax effects of operating income and DD&A adjustment related to the Argosy acquisition.

The following adjustments have been made to reflect the transactions described above as if the transactions had occurred on January 1, 2005 for purposes of the pro forma consolidated statement of operations for the period January 1 to December 31, 2005:

- c. Costs incurred to operate and maintain wells and related equipment and facilities.
- d. DD&A has been adjusted to reflect the effect of the Argosy acquisition in the amount of \$2,322 thousand. An adjustment of \$704 thousand would be associated with the Palmar Largo acquisition. Additional DD&A is due to the increased cost basis of Argosy and Palmar Largo assets from recording them at full value on the acquisition date (of January 1, 2005 for pro forma purposes.)
- e. Provision for income taxes has been decreased by \$894 thousand to account for the tax effects of operating income and DD&A adjustment related to the Argosy acquisition.

**3. PURCHASE PRICE ALLOCATION**

The total purchase price has been allocated to the Palmar Largo and Argosy Assets based on their estimated fair values.





**GRAN TIERRA ENERGY, INC.****Notes to the Pro forma Consolidated Financial Statements  
For the Nine-Month Period Ended September 30, 2006 and the  
Year Ended December 31, 2005****(Unaudited)****(Tabular amounts expressed in thousands of US dollars)**

## Argosy Acquisition:

|  |         |
|--|---------|
|  | \$      |
| Cash paid, net of cash acquired          | 36,414  |
| Shares issued                            | 1,306   |
| Transaction costs                        | 498     |
|  | 38,218  |
| Purchase Price Allocated                 |         |
| Oil & natural gas assets                 | 32,553  |
| Goodwill                                 | 15,005  |
| Accounts Receivable                      | 5,362   |
| Inventories                              | 568     |
| Long term investments                    | 7       |
| Accounts Payable and Accrued Liabilities | (6,085) |
| Long term Payable                        | (50)    |
| Deferred Tax Liabilities                 | (9,142) |
|  | 38,218  |

The purchase price allocation has changed from the preliminary allocation performed on June 21, 2006 as the Company was awaiting the results of an independent reserve audit which was received in September 2006.

## Palmar Largo Acquisition:

|                                |              |
|--------------------------------|--------------|
|                                | \$           |
| Cash paid                      | <b>7,000</b> |
| Purchase price allocated       |              |
| Oil and natural gas properties | <b>7,110</b> |
| Asset retirement obligations   | <b>(110)</b> |
|                                | <b>7,000</b> |

**4. BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share are calculated using 88,914,645 shares of common stock at September 30, 2006 and 39,408,796 shares of common stock at December 31, 2005. Diluted earnings per share are calculated using 124,071,560 shares of common stock at September 30, 2006 and 46,551,349 shares of common stock at December 31, 2005. This includes 25,870,647 shares valued at \$1.50 per share, issued in conjunction with the Argosy Acquisition, added as if they were issued on January 1, 2005.

(d) Exhibits.

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.5                | Amended and Restated Bylaws of Gran Tierra Energy Inc.*   |
| 4.2                | Form of Warrant issued to institutional and retail investors in connection with the private offering on June 20, 2006.*   |
| 4.3                | Warrant issued to CD Investment Partners, Ltd. in connection with the private offering on June 20, 2006.*   |
| 10.19              | Form of Securities Purchase Agreement, dated as of June 20, 2006, by and among Gran Tierra Energy Inc. and institutional investors purchasing units of Gran Tierra Energy Inc. securities in a private offering.* |
| 10.20              | Form of Securities Purchase Agreement, dated as of June 20, 2006, by and among the Company and retail investors purchasing units of Gran Tierra Energy Inc. securities in a private offering.*                    |
| 10.21              | Form of Subscription Agreement, dated as of June 20, 2006, by and among Gran Tierra Energy Inc. and retail investors subscribing for units of Gran Tierra Energy Inc. securities in a private offering.*          |
| 10.22              | Securities Purchase Agreement, dated as of June 20, 2006, by and between Gran Tierra Energy Inc. and CD Investment Partners, Ltd.*  |
| 10.23              | Form of Registration Rights Agreement, dated as of June 20, 2006, by and among Gran Tierra Energy Inc. and institutional investors purchasing units of Gran Tierra Energy Inc. securities in a private offering.* |
| 10.24              | Form of Registration Rights Agreement, dated as of June 20, 2006, by and among Gran Tierra Energy Inc. and retail investors purchasing units of Gran Tierra Energy Inc. securities in a private offering.*        |
| 10.25              | Registration Rights Agreement, dated as of June 20, 2006, by and between Gran Tierra Energy Inc. and CD Investment Partners, Ltd.*  |
| 10.26              | Lock-Up Agreement, dated June 20, 2006, by and among Sanders Morris Harris Inc. and the executive officers and directors of Gran Tierra Energy Inc.*  |
| 10.27              | Registration Rights Agreement, dated as of June 20, 2006, by and between Gran Tierra Energy Inc. and Crosby Capital, LLC.*  |

\*Previously filed with the Securities and Exchange Commission on June 21, 2006 on the Current Report on Form 8-K (File No. 333-111656), and incorporated herein by reference.

**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 hereunto duly authorized.

Gran Tierra Energy Inc.

By: /s/ James Hart  
Name: James Hart  
Title: Chief Financial Officer

Date: December 5, 2006

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