

## **Annual Report**

2013

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") provides a detailed explanation of Antrim Energy Inc.'s (the "Company" or "Antrim") operating results for the fourth quarter and year ended December 31, 2013 compared to the fourth quarter and year ended December 31, 2012 and should be read in conjunction with the audited consolidated financial statements of Antrim. This MD&A has been prepared using information available up to March 27, 2014. The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted all amounts are reported in United States dollars.

### **Going Concern**

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

There are a number of material uncertainties that raise significant doubts as to the Company's ability to continue as a going concern, including compliance with debt covenants, the performance of producing wells and related infrastructure, oil prices, ability to finish the planned development program for Causeway within budget, ability to secure additional financing and settlement of contingencies. If the assumption in respect to the ability of the Company to continue as a going concern is not appropriate, adjustments to the carrying amounts of assets and liabilities, revenues and expenses and the statement of financial position classifications used may be necessary. Such adjustments could be material.

In January 2013, the Company entered into a \$30 million Payment and Oil Swap transaction to fund increased capital requirements of the Causeway project which is subject to a number of financial and operating covenants as well as restrictions on various cash balances. The Company is in breach of certain covenants and had insufficient cumulative production to remove restrictions related to the use of proceeds from oil sales. In addition, the Company continues to experience higher than expected capital costs to complete the Causeway development for which the Company is subject to requirements to place additional funds into a reserve account with the lender. Failure to fund capital costs or meet financial and operating covenants could result in the loss of the asset.

On February 7, 2014 the Company announced that it entered into an agreement (the "Agreement") with First Oil Expro Limited ("FOE") pursuant to which, subject to the terms and conditions of the Agreement, FOE has agreed to purchase from the Company (the "Transaction") all of the issued and outstanding shares in the capital of Antrim's UK subsidiary, Antrim Resources (N.I.) Limited ("ARNIL") for \$53 million in cash, plus the assumption of certain liabilities and adjusted working capital, from which Antrim will settle on closing all outstanding obligations under its Payment and Oil Swap agreements. The economic date of the proposed transaction is January 1, 2014 and a \$5 million deposit was received from FOE to be applied towards the purchase price. Antrim will retain its interest in P077 Block 21/28a (the "Fyne Licence") and P1875 Block 21/29d (the "Erne Licence"), as well as FEL 1-13 in the Porcupine Basin offshore Ireland. The Transaction is subject to customary

"fiduciary out" provisions, and is conditional upon, among other things, the approval of Antrim shareholders and the receipt of applicable regulatory approvals. The Agreement includes provision for payment of a Liquidated Damages fee of \$5.3 million payable by either party under certain circumstances if the Transaction is not completed.

The Board of Directors of Antrim, after consultation with its financial and legal advisors, has unanimously approved entering into the Agreement and recommend that Antrim shareholders approve the Transaction at a special meeting of shareholders to be held on April 4, 2014 (the "Meeting"). Full details of the Transaction are included in a management information circular (the "Circular") mailed to Antrim shareholders on February 28, 2014.

The Board of Directors' recommendation follows an extensive process by the Company to secure additional viable financing needed to meet higher than expected capital costs to complete the Causeway development as well as meet its ongoing Payment and Oil Swap obligations. This process was hindered by production interruptions caused by platform shutdowns and ongoing delays in completion of the Causeway electric submersible pump ("ESP") and water injection facilities. These delays further negatively impacted available cash balances as hedged production volumes under the Oil Swap no longer matched actual production volumes.

On March 17, 2014 the Payment and Oil Swap was amended to allow for completion of the Transaction. Under the amendment, the Transaction is to be completed by April 15, 2014. Nevertheless, there is no assurance that these initiatives will be successful. Pursuant to the terms of the Payment and Oil Swap, following an event of default by Antrim, Antrim's lender may demand payment of their indebtedness (together with accrued interest), or alternatively, may realize on their security at any time. If the Transaction is not approved by Antrim Shareholders, or is delayed or not completed for any other reason or if the Meeting is adjourned or otherwise delayed, and as a result Antrim is declared to be in default of its obligations, the lender may apply to a court to appoint a receiver or administrator for an order to sell certain of Antrim's assets to generate sufficient proceeds to repay the debt owed. If the lender chose to realize on their security, Antrim may no longer be able to carry on business as a going concern.

As a result of the decision to divest, the majority of the Company's UK segment assets and liabilities have been reclassified as held for sale and the operations have been accounted for as discontinued operations. Comparative figures have been reclassified to conform with this presentation (see note 4 of the consolidated audited financial statements).

### **Non-IFRS Measures**

Cash flow from operations, cash flow from operations per share and netback do not have standard meanings under IFRS and may not be comparable to those reported by other companies. Antrim utilizes cash flow from operations and netback to assess operational and financial performance to allocate capital among alternative projects and to assess the Company's capacity to fund future capital programs.

Cash flow from operations is defined as cash flow from operating activities before changes in working capital. Cash flow from operations per share is calculated as cash flow from operations divided by the weighted-average number of outstanding shares. Reconciliation of cash flow from operations to its nearest measure prescribed by IFRS is provided below. Netback is the per unit of production amount of revenue less operating costs and the financial derivative and is used in capital allocation decisions and to economically assess projects.

### **Calculation of Cash Flow from Continuing Operations**

		Three Months Ended December 31,		nded er 31,
	2013	2012	2013	2012
(\$000's)				_
Cash flow provided by (used in) operating activities	(51)	3,496	(17,474)	(8,671)
Less: changes in non-cash working capital	1,785	11,633	(8,948)	4,717
Cash flow used in operations	(1,836)	(8,137)	(8,526)	(13,388)

### **Overview of Continuing Operations**

### **Fyne Licence**

P077 Block 21/28a - Fyne, Antrim 100%

In late March 2013 the Company announced that it would not proceed with development of the Fyne Field with an FPSO following a significant escalation of expected future development costs. The Company subsequently signed a joint development agreement with Enegi Oil Plc ("Enegi") and Advanced Buoy Technology ("ABTechnology") to undertake engineering studies and preparation of a Field Development Plan ("FDP") using buoy technology. The terms of the agreement include that there will be no costs to the Company prior to FDP approval. During the second half of 2013 Enegi-ABTechnology worked with contractors to engineer the production facility for Fyne. The environmental statement is now due to be submitted during March 2014. Engineering work is now expected to continue during the summer with FDP approval to be sought prior to August 31, 2014. Upon approval of the FDP by DECC, Enegi-ABTechnology will earn the right to acquire 50% working interest in the licence. Antrim will remain operator.

DECC has agreed to amend the terms of the Fyne Licence to allow for a FDP for the Fyne Field to be submitted no later than August 31, 2014. DECC's consent to the amendment includes conditions, amongst other things, that the FDP submission is in its final form, the environmental statement is cleared, the Company is approved as a production operator, there is satisfactory evidence of project financing, and first production is achieved prior to November 25, 2016. If these conditions are not met, or if extensions from DECC are not obtained, potential consequences to Antrim could include the expiry of the Fyne Licence in accordance with its terms.

The independent evaluation of Antrim's oil and gas properties for the year ended December 31, 2013 prepared by McDaniel & Associates Consultants Ltd. and dated March 22, 2014 (the "McDaniel Report") did not assign any reserves to the Fyne Field compared to 11.8 million barrels proved plus probable reserves assigned to the Fyne and Crinan fields at December 31, 2012. The decrease is

attributed to relinquishment in July 2013 of the Crinan Prospective Area and uncertainty as to the development of the Fyne Field.

### **Erne Licence**

P1875 Block 21/29d - Erne, Antrim 50%

The Erne Licence started in January 2011 and is a Promote Licence with a drill-or-drop commitment. The Erne well (21/29d-11 and 11z) drilled in late 2011 met all the commitments on the Licence. A discovery was made with the 21/29d-11 well and also in the up-dip side-track 21/29d-11z well. These discoveries are not commercial on their own, but may be economic to develop as tie-backs to an adjacent production facility if that transpires. The initial four year term of the Licence expires in January 2015 at which time there is a requirement to relinquish 50% of the Licence area. Erne has never been assigned any proved, probable or possible reserves or contingent resources.

### **Ireland**

Frontier Exploration Licence 1-13, Antrim 25%

Antrim acquired a Licensing Option in the 2011 Atlantic Margin Licensing Round which included Blocks 44/4, 44/5 (part), 44/9, 44/10, 44/14 and 44/15 covering an area of 1,409 km<sup>2</sup> (the "Skellig Block"). Antrim licensed, reprocessed and interpreted 2D seismic data over the blocks and identified a Cretaceous deep sea fan complex similar in seismic character to many of the recent Cretaceous discoveries offshore West Africa.

In April 2013, the Company farmed out a 75% interest in, and operatorship, of the Licensing Option to Kosmos Energy Ltd. ("Kosmos") in exchange for Kosmos carrying the full costs of a planned 3D seismic program within the licence area and re-imbursement to Antrim of a portion of the exploration costs incurred on the blocks to date. Antrim retained a 25% interest. The transaction was approved by the Department of Communications, Energy and Natural Resources of Ireland ("DCENR").

On July 15, 2013, DCENR approved the conversion of the Licensing Option to a Frontier Exploration Licence ("FEL"). FEL 1-13 has a 15 year term, with an initial three-year term followed by three four-year terms, following a mandatory 25% relinquishment of the Licensing Option area. The remaining licence area is 1,051.75 km².

The approved work programme for the initial three year term of the FEL involves acquisition of 3D seismic over the FEL area followed by seismic processing, interpretation and geological studies. Seismic acquisition commenced on July 10, 2013 and was completed by the end of September 2013. Processing and interpretation of the seismic data is in progress.

### **Tanzania**

Production Sharing Agreement - Pemba and Zanzibar

In July 2013, the Company sold its option to acquire up to a 30% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence offshore and onshore Tanzania. Cash consideration paid to the Company was \$7.5 million. There were no wells, production, reserves or resources associated with the transaction.

### **Corporate**

In May 2013, Antrim disclosed that there were a number of material uncertainties that raised significant doubt as to Antrim's ability to continue as a going concern, including the performance of the producing wells, oil prices, ability to finish the planned development program for the Causeway Field within budget, ability to secure additional financing, relinquishment of commitments on certain licences and settlement of contingencies. Antrim further disclosed that the availability of equity or debt financing is affected by many factors, many of which are outside of Antrim's control.

On February 7, 2014 the Company announced that it entered into an agreement to sell, subject to shareholder and regulatory approval, all of the issued and outstanding shares in the capital of ARNIL for \$53 million in cash, plus the assumption of certain liabilities and adjusted working capital, from which Antrim will settle on closing all outstanding obligations under its Payment and Oil Swap agreements. See Going Concern on page 1 of Management's Discussion and Analysis for additional information.

### **Overview of Discontinued Operations**

### **Causeway Licences**

Licence P201 Block 211/22a South East Area and P1383 Block 211/23d, Antrim 35.5%

Production from the Causeway Field averaged 2,178 gross barrels of oil per day ("bopd") (Antrim net 637 bopd) in 2013 compared to an average of 4,081 gross bopd (Antrim net 1,194 bopd) from November to December 31, 2012. In 2013 production was interrupted for 11.5 weeks due to platform shutdowns and well tie-in operations related to another field. Production averaged 1,714 gross bopd (Antrim net 501 bopd) for the three months ended December 31, 2013 compared to 1,439 gross bopd (Antrim net 421 bopd) in the third quarter of 2013. Scheduled maintenance of the North Cormorant platform interrupted oil production for 21 days in the fourth quarter compared to 33 days in the third quarter. Oil production is transported by pipeline to the North Cormorant production platform where it is processed before being exported to the Sullom Voe terminal via the Brent Pipeline System for sale.

Anticipated startup of the downhole ESP and water injection well is now scheduled by the operator for late April 2014 following ongoing delays in completing required platform modification and water injection riser installation work. Until startup of the ESP oil is being produced in cycles to allow for sufficient pressure buildup between cycles.

As part of the sale of a 30% working interest in the Causeway Licences to the operator in October 2011, Antrim entered into a Differential Lifting Agreement ("DLA") giving the operator a temporary right to 6.25% of Antrim's share of produced oil. Antrim's share of oil produced will be reduced to 29.25% until a cumulative value of \$8.9 million after-tax is received by the operator. Once satisfied, Antrim's working interest in production will revert back to 35.5% from 29.25%.

In February 2013, Antrim announced that it had elected to opt out of participating in further development of the Fionn Field and formally withdrew from the Fionn Field subarea in September 2013. The Company retained liability for the decommissioning or well abandonment liabilities of two wells and has been released by the operator of any further obligations with respect to decommissioning of two other suspended wells in the Fionn Field subarea.

Delays in completing the Causeway ESP and water injection facilities together with additional significant capital cost overruns on the project caused the Company to record a \$12.1 million impairment charge in the third quarter of 2013. Following the agreement to sell all of the issued and outstanding shares in ARNIL, the Company recorded a \$14.6 million impairment charge in the fourth quarter of 2013.

The McDaniel Report effective December 31, 2013 assigned the Causeway Field gross proved plus probable reserves of 4.957 million barrels (1.76 million net to Antrim) representing a 14% decrease from December 31, 2012 due to 2013 production.

### **Contender Licence**

P201 Block 211/22a Contender Area, Antrim 8.4%

On January 14, 2013, Antrim announced that first oil production had been achieved from the Cormorant East Field 85 days after discovery of the field. Production is processed through the North Cormorant platform before being exported to the Sullom Voe terminal. The Cormorant East Field is initially being produced under primary depletion with a single production well (the "Contender well"), with the potential to run an electrical submersible pump and to install a water injection scheme and/or additional production wells at a later date. A future drilling location has been identified and is scheduled to be drilled mid 2014.

Under the terms of the farm-out agreement with the operator, 100% of the drilling, completion and tie in costs of the Contender Well were funded by the operator. Antrim will receive its share of production after Antrim's working interest share of the completion and tie in costs plus 10% are recovered from production revenue.

Production from the Cormorant East Field has been constrained for mechanical reasons and averaged 457 gross bopd (Antrim net 38 bopd) in 2013 compared to nil in 2012. Production from the Cormorant East Field averaged 377 gross bopd (Antrim net 32 bopd) for the three months ended December 31, 2013 compared to 508 bopd (Antrim net 43 bopd) in the third quarter of 2013.

The McDaniel Report effective December 31, 2013 assigned the Cormorant East Field gross proved plus probable reserves of 7.1 million barrels (0.6 million net to Antrim) representing a 2% decrease from December 31, 2012 due to 2013 production.

### **Financial Discussion of Continuing Operations**

All amounts reported in this MD&A related to the three month periods ended December 31, 2013 and 2012 are unaudited.

	Three Months Ended December 31,		Year Er Decembe	
	2013	2012	2013	2012
Financial Results (\$000's except per share amounts)				
Cash flow used in operations (1)	(1,836)	(8,137)	(8,526)	(13,388)
Cash flow used in operations per share (1)	(0.01)	(0.04)	(0.05)	(0.07)
Net loss – continuing operations	(2,377)	(67,131)	(9,445)	(134,805)
Net loss per share – basic, continuing operations	(0.01)	(0.36)	(0.05)	(0.73)
Net loss	(21,212)	(67,155)	(39,202)	(134,544)
Net loss per share - basic	(0.11)	(0.36)	(0.21)	(0.73)
Total assets	91,836	96,520	91,836	96,520
Working capital (deficiency)	788	(10,734)	788	(10,734)
Capital expenditures – continuing operations	239	(582)	616	9,074
Common shares outstanding (000's)				
End of period	184,731	184,731	184,731	184,731
Weighted average – basic	184,731	184,848	184,731	184,388
Weighted average – diluted	184,731	185,681	184,731	185,528

<sup>(1)</sup> Cash flow from operations and cash flow from operations per share are Non-IFRS Measures. Refer to "Non-IFRS Measures" in Management's Discussion and Analysis.

### Revenue

With the classification of Causeway to discontinued operations the Company did not have any revenue in 2013 or 2012.

### **General and Administrative**

General and administrative ("G&A") costs decreased to \$4.8 million in 2013 compared to \$5.8 million in 2012. The decrease in G&A is primarily due to reduced employee compensation. In 2013 Antrim capitalized \$0.4 million (2012 – \$0.58 million) of G&A costs.

G&A costs decreased to \$1.2 million for the quarter ended December 31, 2013 compared to \$1.6 million for the corresponding period in 2012 due to reduced employee compensation in the period.

### **Exploration & Evaluation Expenditures**

Exploration and evaluation ("E&E") expenditures decreased to \$3.4 million in 2013 compared to \$7.6 million in 2012. The decrease in E&E expenditures is primarily related to less work on the development plan for the Fyne Licence.

E&E expenditures decreased to \$1.3 million for the quarter ended December 31, 2013 compared to \$6.3 million for the corresponding period in 2012.

### **Impairment**

The Company recognized an impairment charge in 2013 of \$7.0 million relating to the West Causeway licence which expired during the year. In 2012 the Company recognized an impairment charge of \$122.7 million relating to the Fyne, Fionn, Cyclone, Cara, Erne and West Teal blocks.

### **Finance Costs**

Finance costs were \$1.1 million in 2013 compared to \$0.2 million in 2012. The increase in finance costs is primarily related to fees sourcing debt financing.

### **Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The Company did not pay or recover any taxes during the quarter and year ended December 31, 2013 (2012 – nil and nil, respectively).

The Company follows the liability method of accounting for income taxes. As at December 31, 2013, no deferred income tax assets were recorded due to uncertainty with respect to the ability of Antrim to generate sufficient taxable income to utilize the unrecognized losses.

### **Cash Flow and Net Loss from Continuing Operations**

In 2013, Antrim generated a cash deficiency from continuing operations of \$8.5 million (\$0.05 per share) compared to a cash deficiency from continuing operations of \$13.4 million (\$0.07 per share) in 2012. The cash flow deficiency decreased in 2013 due to lower general and administrative costs and E&E expenditures.

In the quarter ended December 31, 2013, Antrim generated a cash deficiency from continuing operations of \$1.8 million (\$0.01 per share) compared to a cash deficiency from continuing operations of \$8.1 million (\$0.04 per share) in the corresponding period in 2012. The cash flow deficiency decreased due to lower general and administrative costs and E&E expenditures.

In 2013 Antrim had a net loss from continuing operations of \$9.4 million compared to a net loss from continuing operations of \$134.8 million in 2012. The net loss decreased due to a gain in 2013 of \$7.5 million on the disposal of the Tanzania option, higher impairment costs recorded in 2012 and a reduction in 2012 in the fair value of financial assets.

In the fourth quarter of 2013, Antrim had a net loss from continuing operations of \$2.4 million compared to a net loss from continuing operations of \$67.1 million for the corresponding period in 2012. Net loss decreased due to higher E&E and impairment costs recorded in 2012.

### Foreign Exchange and Comprehensive Income

The reporting currency of the Company is the US dollar. Effective January 1, 2013, the Company's UK operations has been accounted for as a US functional currency entity. A significant portion of the Company's activities are transacted in or referenced to US dollars, Canadian dollars or British pounds sterling. The Company's operating costs and certain of the Company's payments in order to maintain property interests are made in the local currency of the jurisdiction where the applicable property is located. As a result of these factors, fluctuations in the Canadian dollar, British pounds sterling and US dollar could result in unanticipated fluctuations in the Company's financial results.

The Company incurred a foreign exchange gain of \$39 thousand in 2013 compared to a loss of \$0.5 million in 2012. The Company recognized other comprehensive income of \$17 thousand in 2013, compared to other comprehensive income of \$10.6 million in 2012 related to foreign currency translation adjustments.

### **Financial Discussion of Discontinued Operations**

### Revenue

The Company recorded revenue of \$25.2 million in 2013 (2012 – nil) and \$2.7 million for the quarter ended December 31, 2013 (2012 – nil). Revenue increased as the Company had no liftings in 2012. Revenue is recognized when title and risk transfer to the purchaser, which occurs at the time of lifting into a tanker at the Sullom Voe terminal. Under the contract with the sole UK purchaser, Antrim invoices and receives payment for its oil in the month after production; however, the purchaser retains certain rights impacting the timing of liftings which may result in no sales in a particular month resulting in deferred revenue.

Antrim's oil sales prices, before adjusting for Antrim's oil price commodity swaps, averaged \$110.05 for the year ended December 31, 2013 (2012 - nil) and \$107.59 for the quarter ended December 31, 2013 (2012 - nil). The sales price for Causeway oil is calculated based on the monthly average price for Brent Ninian Blend, in the month subsequent to the month of production.

### **Production**

The following table provides oil production and sales from the Causeway Field for the quarter and years ended December 31, 2013 and 2012.

	Three Mont	Year E	nded	
	Decemb	December 31,		
(Barrels)	2013	2012	2013	2012
Opening inventory (1)	55,489	=	74,000	-
Net production (2)	46,117	74,000	232,528	74,000
Net sales	(25,000)	-	(228,970)	-
Processing and shrinkage	(1,370)	-	(2,321)	
Ending inventory (1)	75,236	74,000	75,236	74,000

- (1) Included in inventory is linefill and deadstock of 31,050 barrels
- (2) Per the DLA, Antrim's share of oil produced is reduced to 29.25% until a cumulative value of \$8.9 million after tax is received by Valiant

Daily oil production from the Causeway Field averaged gross 2,178 bopd (Antrim net 637 bopd) in 2013 compared to an average of 4,081 gross bopd (Antrim net 1,194 bopd) from November to December 31, 2012. Oil production in the quarter ended December 31, 2013 decreased to average gross 1,714 bopd (Antrim net 501 bopd) compared to an average of 2,793 bopd (Antrim net 817 bopd) in the first half of 2013 due to natural decline and scheduled maintenance of the North Cormorant platform.

### **Netbacks**

The following table provides a comparative analysis of field netbacks, based on sales, for the quarter and year ended December 31, 2013 and 2012:

	Three Months Ended December 31,		Year E Decemb	
	2013	2012	2013	2012
\$/bbl				
Sales price	107.59	-	110.05	-
Financial derivative	(9.60)	-	(4.24)	-
Direct production and operating expenses	(30.61)	-	(20.73)	-
Netback	67.38	-	85.09	-

Direct production and operating expenses consist of operator, production platform and export terminal costs. Direct production and operating expenses increased to \$4.75 million (2012 - \$nil) primarily due to the commencement of production from the Causeway Field. Direct production and operating expenses were \$0.76 million for the quarter ended December 31, 2013 compared to \$1.67 million for the previous quarter. Direct production and operating expenses were \$30.61 per barrel for the quarter ended December 31, 2013 from \$32.78 per barrel for the previous quarter.

### **Depletion**

Depletion expense was \$12.7 million in 2013 compared to \$nil in 2012 due to the recognition of depletion as a result of production from Causeway. Depletion expense was \$0.82 million for the quarter ended December 31, 2013 compared to \$nil for the corresponding period in 2012. The depletion rate in 2013 was \$55.61 per barrel compared to \$nil in 2012.

### **Impairment**

Further delays in completing the Causeway ESP and water injection facilities together with additional significant capital cost overruns on the project caused the Company to record a \$12.1 million impairment charge in the third quarter of 2013. Following the agreement to sell all of the issued and outstanding shares in ARNIL, the Company recorded a \$14.6 million impairment charge in the fourth quarter of 2013.

### **Financial Derivative**

The following table summarizes the commodity hedge outstanding as at December 31, 2013:

		Volume	Fixed price
Derivative	Term	bbl	\$/bbl
Oil Swaps	February 2014 – December 2016	494,652	\$81.21

The Company recorded a \$3.8 million and a \$4.2 million loss on the financial derivative for the quarter and year ended December 31, 2013 (2012 - \$nil and \$nil, respectively). The loss for 2013 was predominantly due to a reduction in the fixed swap price from \$89.37 per barrel to \$81.21 per barrel in exchange for amendments to the Payment and Oil Swap.

### **Finance Costs**

Finance costs were \$5.8 million in 2013 compared to \$0.1 million in 2012. The increase in finance costs is primarily related to interest expense of \$4.7 million and non-recurring costs of \$0.9 million relating to the debt financing.

Finance costs were \$1.3 million for the quarter ended December 31, 2013 compared to \$0.0 million for the corresponding period in 2012. The increase in finance costs is primarily related to interest expense.

### **Cash Flow and Net Loss from Discontinued Operations**

In 2013, Antrim generated cash flow from discontinued operations of \$18.6 million (\$0.09 per share) compared to a cash deficiency from operations of \$0.4 million (\$0.00 per share) in 2012. Cash flow from operations increased due to the recognition of revenue from Causeway production.

In the quarter ended December 31, 2013, Antrim generated cash flow from discontinued operations of \$2.0 million (\$0.01 per share) compared to a cash deficiency from operations of \$nil (\$0.00 per share) in the corresponding period in 2012. Cash flow from operations increased due to the recognition of revenue from Causeway production.

In 2013 Antrim had a net loss from discontinued operations of \$29.8 million compared to net income from discontinued operations of \$0.3 million in 2012. The net loss increased primarily due to higher impairment costs recorded in 2013 and finance costs partially offset by revenue from Causeway production.

In the fourth quarter of 2013, Antrim had a net loss from discontinued operations of \$18.8 million compared to a net loss from continuing operations of \$0.0 million for the corresponding period in 2012. Net loss increased due to higher impairment and finance costs in 2013 partially offset by revenue from Causeway production.

### **Capital Expenditures Related to Discontinued Operations**

Antrim incurred capital expenditures related to discontinued operations of \$23.4 million and \$55.1 million in 2013 and 2012, respectively. Capital expenditures in 2013 primarily relate to ongoing development costs of the Causeway Licence. See Contractual Obligations, Commitments and Contingencies for anticipated additional capital expenditures.

### Financial Resources, Liquidity and Going Concern

There are a number of material uncertainties that raise significant doubts as to the Company's ability to continue as a going concern, including compliance with debt covenants, the performance of producing wells and related infrastructure, oil prices, ability to finish the planned development program for Causeway within budget, ability to secure additional financing, relinquishment of commitments on certain licences and settlement of contingencies. See Going Concern on page 1 and Risk Factors on page 16 of Management's Discussion and Analysis for additional information.

The reported bank debt and financial derivative amounts on the balance sheet at December 31, 2013 are after discount. The actual principal amount of bank debt outstanding at December 31, 2013 is \$24.7 million compared to a balance sheet amount of \$20.2 million. If the Company were to have settled the financial derivative at December 31, 2013 the payment amount would have been \$10.6 million compared to a balance sheet amount of \$8.2 million.

Antrim had a working capital surplus at December 31, 2013 of \$0.8 million compared to a working capital deficiency of \$10.7 million as at December 31, 2012. Without the reclassification of assets and liabilities held for sale, Antrim had a working capital deficiency at December 31, 2013 of \$24.0 million, including bank debt (after discount) of \$20.2 million and financial derivative (after discount) of \$8.2 million. Should the Transaction be completed in April 2014, Antrim expects to have approximately \$17 - \$18 million in working capital after repayment of the Payment and Oil Swap.

### **Contractual Obligations, Commitments and Contingencies**

Antrim has several commitments in respect of its petroleum and natural gas properties and operating leases as at December 31, 2013 as follows:

•	2014	2015	2016	2017	2018	Thereafter
(\$000's)						
Office Leases	240	251	251	233	10	-
Ireland	350	-	-	-	-	-
United Kingdom						
Continuing operations:						
Fyne (1)	34	34	34	-	-	-
Erne	14	-	-	-	-	-
Assets held for sale:						
Causeway (2)	4,734	27	29	32	32	32
Cormorant East	1,804	8	8	8	8	8
Total	7,176	320	322	273	50	40

- (1) In March 2013, the Company decided not to proceed with development of the Fyne Field using an FPSO. The Company continues to hold the licence pending further evaluation using buoy technology. The Dandy Prospective Area was relinquished in March 2013 and the Crinan Prospective Area was relinquished in July 2013.
- (2) Relates to Antrim's 35.5% interest in the Causeway Licences.

In 2011, the Company entered into a variation to an existing contract for drilling management services in the UK North Sea which required the drilling of two wells, estimated to take 50 days in a letter of intent preceding the contract variation. The Company contends that it met its contractual obligations under this variation through the drilling of the Erne pilot well (21/29d-11) and the Erne sidetrack well (21/29d-11Z). The drilling of these two wells took place over a period of 58 days. Subsequent to releasing the rig, the Company received an invoice from the drilling management services contractor charging the Company for approximately \$5 million in additional costs as the contractor claims all conditions of the contract had not yet been satisfied.

In July 2012, the drilling management services contractor filed a claim against the Company for the additional invoice costs plus interest and lost management time. The Company has filed a defense against this claim in the High Court of England and Wales and believes it is more likely than not that it will not have to pay. As a result, a contingent liability has not been recorded. Under the Transaction the claim is to remain with ARNIL.

#### Outlook

Antrim believes that certain factors necessitate Antrim monetizing its interest in ARNIL at the present time and without delay. Antrim is or expects to be in breach of certain covenants under its Payment and Oil Swap agreements. To date, Antrim's counterparties to these agreements have not been willing to assume additional risk that would result from granting Antrim more time to meet the covenants which are or are expected to be in breach. In the event that Antrim is unable to remedy these covenant breaches and expected covenant breaches in a manner satisfactory to Credit Suisse, Credit Suisse may declare that Antrim is in breach of its obligations and they may become due and payable in full. If this result were to occur, it would likely have serious financial consequences for Antrim. Antrim believes that the ARNIL sale delivers an attractive price for the ARNIL assets and is a fair offer. Antrim thoroughly and exhaustively considered numerous alternatives generated in conjunction with Antrim's financial advisor, Carlingford. See the Circular filed on SEDAR at <a href="www.sedar.com">www.sedar.com</a> for further details.

If the ARNIL sale is completed, Antrim will have no debt and will be able to continue to operate as a going concern, engaged in the oil and gas business, with greater financial resources and an opportunity to further develop Antrim's remaining assets as well as greater opportunities to raise capital or seek other strategic alternatives, including a possible business combination, to maximize shareholder value. It is possible that following completion of the ARNIL Sale, Antrim will no longer meet the minimum listing requirements of the TSX, specifically the requirement that the Company have proved developed reserves associated with one or more of its oil and gas properties. Accordingly, the Company has applied for a listing on the TSXV to be effective on or about the Completion Date (in the event that the Company no longer meets the minimum listing requirements of the TSX). In addition to further development of its remaining properties, Antrim continues to consider various international exploration opportunities where Antrim believes such opportunities will create value for Antrim Shareholders.

### **Summary of Quarterly Results**

(\$000, except per share amounts)	Revenue, Net of Royalties	Cash Flow Used in Operations	Net Income (Loss)	Net Income (Loss) Per Share - Basic
	(note 1)	(note 1)		_
2013				
Fourth quarter	-	(1,836)	(21,212)	(0.11)
Third quarter	-	(1,506)	(16,067)	(0.09)
Second quarter	-	(1,816)	930	0.01
First quarter	-	(3,368)	(2,853)	(0.02)
	-	(8,526)	(39,202)	(0.21)
2012				
Fourth quarter	-	(8,137)	(67,155)	(0.36)
Third quarter	-	(472)	(5,396)	(0.03)
Second quarter	=	(3,178)	(6,572)	(0.04)
First quarter	-	(1,601)	(55,421)	(0.30)
	-	(13,388)	(134,544)	(0.73)

### 1. Continuing operations only

Key factors relating to the comparison of net income (loss) for the fourth quarter of 2013 to previous quarters are as follows:

- In the fourth quarter of 2013, the Company recognized a \$14.6 million impairment charge on assets to be disposed of (subject to shareholder approval);
- In the third quarter of 2013, the Company recognized a \$12.1 million impairment charge with respect to delays and cost overruns for the Causeway Field;
- In the fourth quarter of 2012, the Company recognized a \$50.4 million impairment charge related to the decision not to participate in further development of its 35.5% working interest in the Fionn Field, a \$5.9 million impairment charge related to the abandonment of the Cyclone well 21/7b-4 and a \$1.8 million impairment charge related to the West Teal Licence;
- In the third quarter of 2012, the Company recognized a \$2.3 million impairment charge related to the planned relinquishment of Carra Licence P1563 Blocks 21/28b & 21/29c;
- The second quarter 2012 net loss was impacted by a \$10 million reduction in the fair value of the Crown Point shares partially offset by a \$5.9 million gain on the disposal of the Argentina assets;
- During the first quarter of 2012, net loss included \$54.7 million in impairment costs related to the Fyne Licence, the Erne discovery well and the Erne sidetrack well;

### Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Antrim has established disclosure controls, procedures and corporate policies so that its consolidated financial results are presented accurately, fairly and on a timely basis. The Chief Executive Officer and Chief Financial Officer have designed or have caused such internal controls over financial reporting to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with IFRS. The Company tested and evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting as at December 31, 2013. During this evaluation the Corporation identified a weakness due to the limited number of finance and accounting personnel at the Corporation dealing with complex and non-routine accounting transactions that may arise.

There were no changes in the Company's internal controls over financial reporting that occurred in 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting except for further limited segregation of duties which occurred in the fourth quarter.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable but not absolute assurance that financial information is accurate and complete.

### **Risks and Uncertainties**

The oil and gas industry involves a wide range of risks which include but are not limited to the uncertainty of finding new commercial fields, securing markets for existing reserves, commodity price fluctuations, exchange and interest rate costs and changes to government regulations, including regulations relating to prices, taxes, royalties, land tenure, allowable production and environmental protection and access to off-shore production facilities in the UK. The oil and natural gas industry is intensely competitive and the Company competes with a large number of companies that have greater resources.

### **Substantial Capital Requirements**

The Company's ability to increase reserves in the future will depend not only on its ability to develop its present properties but also on its ability to select and acquire suitable exploration or producing properties or prospects. The acquisition and development of properties also requires that sufficient funds, including funds from outside sources, will be available in a timely manner. The availability of equity or debt financing is affected by many factors, many of which are outside the control of the Company. Recent world financial market events and the resultant negative impact on economic conditions have increased the risk and uncertainty of the availability of equity or debt financing.

In January 2013, Antrim entered into a payment swap for \$30 million and a forward sale of 657,350 barrels of Brent crude oil. At December 31, 2013 the Company had outstanding principal of \$24.7 million and undelivered 494,652 barrels of crude oil. If the proposed Transaction is not completed, the Company's anticipated revenue for 2014, as well as the Company's ability to repay the payment swap, is dependent upon the future production rates from the Causeway and Cormorant East Fields as well as oil prices. See also "Financial Resources, Liquidity and Going Concern."

### Failure to Complete the ARNIL Sale

As described under "Going Concern", Antrim currently is or expects to be in breach of certain covenants, including its capex reserve and debt service cover ratio covenants, under the agreements governing the Payment and Oil Swap due to significant increases in actual and estimated capital expenditures necessary to complete development of the Causeway Field. The capex reserve account covenant requires Antrim to maintain a minimum amount of funds in a restricted account sufficient to cover certain estimated future development expenditures of Antrim relating to the Causeway Field. The debt service cover ratio covenant requires Antrim to maintain a ratio of cash flow to debt service costs of greater than 1.40:1. In the event that Antrim is unable to remedy these covenant breaches in a manner satisfactory to its lender, the lender may declare that Antrim is in breach of its obligations under the agreements and the Payment and Oil Swap Obligations may become due and payable in full. In the event of such circumstances, there can be no assurances that Antrim would be able to repay these debts when due which could result in the appointment of a receiver or administrator.

This risk factor in its entirety may also be applicable to Antrim in the event that the Meeting is delayed or adjourned for any reason, or in the event that completion of the ARNIL Sale takes significantly more time than currently anticipated by Antrim.

### Foreign Operations

A number of risks are associated with conducting foreign operations over which the Company has no control, including currency instability, potential and actual civil disturbances, restriction of funds movement outside of these countries, the ability of joint venture partners to fund their obligations, changes of laws affecting foreign ownership and existing contracts, environmental requirements, crude oil and natural gas price and production regulation, royalty rates, OPEC quotas, potential expropriation of property without fair compensation, retroactive tax changes and possible interruption of oil deliveries.

Further discussions regarding the Company's risks and uncertainties, can be found in the Company's Annual Information Form dated March 27, 2014 which is filed on SEDAR at www.sedar.com.

### **Forward-Looking and Cautionary Statements**

This MD&A and any documents incorporated by reference herein contain certain forward-looking statements and forward-looking information which are based on Antrim's internal reasonable expectations, estimates, projections, assumptions and beliefs as at the date of such statements or information. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting", "forecast", "achieve" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements and information. Antrim believes that the expectations reflected in those forward-looking statements and information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements and information included in this MD&A and any documents incorporated by reference herein should not be unduly relied upon. Such forwardlooking statements and information speak only as of the date of this MD&A or the particular document incorporated by reference herein and Antrim does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

In particular, this MD&A and any documents incorporated by reference herein, contain specific forward-looking statements and information pertaining to the quantity of and future net revenues from Antrim's reserves of oil, natural gas liquids ("NGL") and natural gas production levels. This MD&A may also contain specific forward-looking statements and information pertaining to Antrim's plans for exploring and developing its licences, including exploration of the Skellig block, future development plans with respect to Causeway and Cormorant East properties, factors affecting production processed at the North Cormorant platform, commodity prices, foreign currency exchange rates and interest rates, capital expenditure programs and other expenditures, Antrim's financing arrangements, the proposed Transaction for the sale of ARNIL, supply and demand for oil, NGLs and natural gas, expectations regarding Antrim's ability to raise capital, to continually add to reserves through acquisitions and development, the schedules and timing of certain projects, Antrim's strategy for growth, Antrim's future operating and financial results, treatment under governmental and other regulatory regimes and tax, environmental and other laws.

With respect to forward-looking statements contained in this MD&A and any documents incorporated by reference herein, Antrim has made assumptions regarding Antrim's ability to obtain additional drilling rigs and other equipment in a timely manner, obtain regulatory approvals, future oil and natural gas production levels from Antrim's properties and the price obtained from the sales of such production, the level of future capital expenditure required to exploit and develop reserves, the ability of Antrim's partners to meet their commitments as they relate to the Company and Antrim's reliance on industry partners for the development of some of its properties, Antrim's ability to meet its obligations under the Payment and Oil Swap and the forward sale of Brent oil crude, the general stability of the economic and political environment in which Antrim operates and the future of oil and natural gas pricing. In respect to these assumptions, the reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect.

Antrim's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of assumptions proving inaccurate and of both known and unknown risks, including the risk that the proposed ARNIL Sale is delayed or not completed for any reason, the consideration to be received pursuant to the ARNIL Sale, the anticipated benefits of the ARNIL sale, risks associated with the exploration for and development of oil and natural gas reserves such as the risk that drilling operations may not be successful, unanticipated delays with respect to the development of Antrim's properties, platform shutdowns affecting production levels, operational risks and liabilities that are not covered by insurance, volatility in market prices for oil, NGLs and natural gas, changes or fluctuations in oil, NGLs and natural gas production levels, changes in foreign currency exchange rates and interest rates, the ability of Antrim to fund its substantial capital requirements and operations and to repay its obligations under the Payment and Oil Swap, Antrim's reliance on industry partners for the development of some of its properties, risks associated with ensuring title to the Company's properties, liabilities and unexpected events inherent in oil and gas operations, including geological, technical, drilling and processing problems, the risk of adverse results from litigation, the accuracy of oil and gas reserve estimates and estimated production levels as they are affected by the Antrim's exploration and development drilling and estimated decline rates, in particular the future production rates at the Causeway and Cormorant East Fields in the UK North Sea. Additional risks include the ability to effectively compete for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel, incorrect assessments of the value of acquisitions, Antrim's success at acquisition, exploitation and development of reserves, changes in general economic, market and business conditions in Canada, North America, the United Kingdom, Europe and worldwide, actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws, royalty rates and incentive programs relating to the oil and gas industry and more specifically, changes in environmental or other legislation applicable to Antrim's operations, and Antrim's ability to comply with current and future environmental and other laws, adverse regulatory rulings, order and decisions and risks associated with the nature of the Common Shares.

Many of these risk factors, other specific risks, uncertainties and material assumptions are discussed in further detail throughout this MD&A and in Antrim's Annual Information Form for the year ended December 31, 2013. Readers are specifically referred to the risk factors described in this MD&A under "Risk Factors" and in other documents Antrim files from time to time with securities regulatory authorities. Copies of these documents are available without charge from Antrim or electronically on the internet on Antrim's SEDAR profile at <a href="www.sedar.com">www.sedar.com</a>. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The calculation of barrels of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas ("mcf") to one barrel of crude oil ("bbl"). Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

In accordance with AIM guidelines, Mr. Kerry Fulton, P. Eng and Vice President, Operations for Antrim, is the qualified person that has reviewed the technical information contained in this MD&A. Mr. Fulton has over 30 years operating experience in the upstream oil and gas industry.

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards outlined in the notes to the consolidated financial statements. The consolidated financial statements include certain estimates that reflect the management's best judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. The financial information contained in the annual report is consistent with that in the consolidated financial statements.

Management is also responsible for establishing and maintaining appropriate systems of internal control over the company's financial reporting. The internal control system was designed to provide reasonable assurance to management regarding the preparation and presentation of the consolidated financial statements. Management tested and evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting as at December 31, 2013. During this evaluation Management identified a weakness due to the limited number of finance and accounting personnel at the Corporation dealing with complex and non-routine accounting transactions that may arise. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable but not absolute assurance that financial information is accurate and complete.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent annual general meeting, to examine the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion.

The audit committee of the Board of Directors with all of its members being independent directors, have reviewed the consolidated financial statements including notes thereto, with management and PricewaterhouseCoopers LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

(signed) "Stephen Greer"
Stephen Greer
President & Chief Executive Officer

(signed) "Anthony J. Potter" Anthony J. Potter Chief Financial Officer



March 27, 2014

### **Independent Auditor's Report**

# To the Shareholders of Antrim Energy Inc.

We have audited the accompanying consolidated financial statements of Antrim Energy Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP 111 5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3 T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Antrim Energy Inc. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

**Chartered Accountants** 

Pricewaterhouse Coopers LLP

# **Antrim Energy Inc.**Consolidated Balance Sheets

As at December 31, 2013 and 2012

(Amounts in US\$ thousands)

	••	December 31	December 31
	Note _	2013	2012
Assets Current assets			
Cash and cash equivalents		1,082	1,503
Restricted cash	5	1,002	808
Accounts receivable	3	184	332
Inventory and prepaid expenses	6	539	5,877
inventory and prepaid expenses	<u> </u>	1,805	8,520
Assets held for sale	4	88,842	-
Property, plant and equipment	7	64	81,069
Exploration and evaluation assets	8 _	1,125	6,931
		91,836	96,520
Liabilities Current liabilities Accounts payable and accrued liabilities Deferred revenue	_	1,017 - 1,017	18,165 1,089 19,254
	_	1,017	19,234
Liabilities held for sale	4	57,977	-
Decommissioning obligations	11	4,130	10,270
	_	63,124	29,524
Shareholders' equity Share capital Contributed surplus	12	361,922 21,527	361,922 20,626
Accumulated other comprehensive income Deficit	_	4,673 (359,410)	4,656 (320,208)
	_	28,712	66,996
Total Liabilities and Shareholders' Equity	_	91,836	96,520
Going concern Commitments and contingencies Subsequent event	1 22 26		

The accompanying notes are an integral part of the consolidated financial statements.

Approved on behalf of the Board of Directors of Antrim Energy Inc.:

(signed) "Gerry Orbell"	_(signed) "James Smith"
Director	Director

## **Antrim Energy Inc. Consolidated Statements of Comprehensive Loss** For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands, except per share data)

	Note _	2013	2012
Revenue		-	-
Expenses			
Direct production and operating expenditures		-	-
General and administrative		4,785	5,843
Depletion and depreciation	7	93	94
Share-based compensation	13	693	998
Exploration and evaluation	8	3,352	7,640
Impairment	7, 8	7,006	122,698
Reduction in fair value of contingent consideration	8	<b>-</b>	(7,000)
Reduction in the fair value of financial assets	25	-	10,040
Gain on disposal of assets	14, 25	(7,506)	(5,894)
Finance income		(2)	(276)
Finance costs	19	1,063	159
Foreign exchange loss (gain)		(39)	503
Loss from continuing operations before income taxes	_	(9,445)	(134,805)
Income tax expense	21	-	-
Loss from continuing operations after income taxes	_	(9,445)	(134,805)
Income (loss) from discontinued operations	4, 25	(29,757)	261
Net loss for the year	, · -	(39,202)	(134,544)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:		17	7.414
Foreign currency translation adjustment		17	7,414
Items reclassified to profit or loss:			2.212
Foreign currency translation adjustment - disposal	_	<u>-</u> 17	3,213
Other comprehensive income for the year	_		10,627
Comprehensive loss for the year	-	(39,185)	(123,917)
Net income (loss) per common share			
Basic and diluted- continuing operations	15	(0.05)	(0.73)
Basic and diluted - discontinued operations	15	(0.16)	(0.00)

The accompanying notes are an integral part of the consolidated financial statements.

### **Consolidated Statements of Cash Flows**

For the years ended December 31, 2013 and 2012

(Amounts in US\$ thousands)

	Note _	2013	2012
Operating Activities			
Loss from continuing operations after income taxes		(9,445)	(134,805)
Items not involving cash:			
Depletion and depreciation	7	93	94
Share-based compensation	13	693	998
Accretion of decommissioning obligations	11	60	91
Non-cash items included in exploration and evaluation expenditures		283	-
Foreign exchange loss		290	390
Impairment		7,006	122,698
Change in the fair value of contingent consideration	8	-	(7,000)
Reduction in the fair value of financial assets	25	-	10,040
Gain on disposal of assets	14, 25	(7,506)	(5,894)
Changes in non-cash working capital items - continuing operations	20 _	(8,948)	4,717
Cash used in operating activities - continuing operations	_	(17,474)	(8,671)
Cash provided by (used in) operating activities - discontinued operations	_	18,570	(365)
Cash provided by (used in) operating activities	_	1,096	(9,036)
Financing Activities			
Issue of common shares		-	186
Proceeds from long-term debt facility	9	30,000	-
Issuance costs on long-term debt facility		(1,423)	-
Payments on long-term debt facility	9	(5,350)	-
Financial derivative settlements	23	(2,225)	-
Cash provided by financing acitivities	_	21,002	186
Investing Activities			
Capital expenditures		(616)	(9,074)
Change in restricted cash		(5,879)	16,441
Cash proceeds from disposal of assets		7,506	9,976
Cash used in investing activities - continuing operations	_	1,011	17,343
Cash used in investing activities - discontinued operations		(23,443)	(55,081)
Cash used in investing acitivities	_	(22,432)	(37,738)
Effects of foreign exchange on cash and cash equivalents	_	(87)	986
Net decrease in cash and cash equivalents		(421)	(45,602)
Cash and cash equivalents - beginning of year		1,503	47,105
Cash and cash equivalents - end of year	20	1,082	1,503

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Equity For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

					Accumulated Other		
		Number of		Contributed	Comprehensive		
	Note	Common Shares	Share Capital	Surplus	Income	Deficit	Total
Balance, December 31, 2011		184,116,078	361,587	19,579	(5,971)	(168,007)	207,188
Net loss for the year			- -	-	-	(134,544)	(134,544)
Capital distribution			-	-	-	(17,657)	(17,657)
Other comprehensive income			-	-	10,627	-	10,627
Share-based compensation	13		-	1,196	-	-	1,196
Stock options exercised		614,998	335	(149)	-	-	186
Balance, December 31, 2012		184,731,076	361,922	20,626	4,656	(320,208)	66,996
Net loss for the year		-	-	-	-	(39,202)	(39,202)
Other comprehensive income		-	-	-	17	-	17
Share-based compensation	13	-	-	901	-	-	901
Balance, December 31, 2013		184,731,076	361,922	21,527	4,673	(359,410)	28,712

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### 1) Nature of Operations

Antrim Energy Inc. ("Antrim" or the "Company") is a Calgary based oil and natural gas company. Through subsidiaries, the Company conducts exploration activities in the United Kingdom and Ireland. Antrim Energy Inc. is incorporated and domiciled in Canada. The Company's common shares are listed on the Toronto Stock Exchange ("TSX") and the London Alternative Investment Market ("AIM") under the symbols "AEN" and "AEY", respectively. The address of its registered office is 1600, 333 – 7<sup>th</sup> Avenue S.W, Calgary, Alberta, Canada.

### **Going Concern**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates that assets will be realized and liabilities discharged in the normal course of business as they come due. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

There are a number of material uncertainties that raise significant doubts as to the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to going concern, including compliance with debt covenants, the performance of producing wells and related infrastructure, oil prices, ability to finish the planned development program for Causeway within budget, ability to secure additional financing and settlement of contingencies. If the assumption in respect to the ability of the Company to continue as a going concern is not appropriate, adjustments to the carrying amounts of assets and liabilities, revenues and expenses and the statement of financial position classifications used may be necessary. Such adjustments could be material.

In January 2013, the Company entered into a \$30 million Payment and Oil Swap transaction which is subject to a number of financial and operating covenants as well as restrictions on various cash balances. The Company is in breach of certain covenants and had insufficient cumulative production to remove restrictions related to the use of proceeds from oil sales. In addition, the Company continues to experience higher than expected capital costs to complete the Causeway development for which the Company is subject to requirements to place additional funds into a reserve account with the lender. Failure to fund capital costs or meet financial and operating covenants could result in the loss of the asset. See note 23(b).

On February 7, 2014 the Company announced that it entered into an agreement (the "Agreement") with First Oil Expro Limited ("FOE") pursuant to which, subject to the terms and conditions of the Agreement, FOE has agreed to purchase from the Company (the "Transaction") all of the issued and outstanding shares in the capital of Antrim's UK subsidiary, Antrim Resources (N.I.) Limited ("ARNIL") for \$53 million in cash, plus the assumption of certain liabilities and adjusted working capital, from which Antrim will settle on closing all outstanding obligations under its Payment and Oil Swap agreements. The economic date of the proposed transaction is January 1, 2014 and a \$5 million deposit was received from FOE to be applied towards the purchase price. Antrim will retain its interest in P077 Block 21/28a (the "Fyne Licence") and P1875 Block 21/29d (the "Erne

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

Licence"), as well as FEL 1-13 in the Porcupine Basin offshore Ireland. The Transaction is subject to customary "fiduciary out" provisions, and is conditional upon, among other things, the approval of Antrim shareholders and the receipt of applicable regulatory approvals. The Agreement includes provision for payment of a Liquidated Damages fee of \$5.3 million payable by either party under certain circumstances if the Transaction is not completed.

The Board of Directors of Antrim, after consultation with its financial and legal advisors, has unanimously approved entering into the Agreement and has recommended that Antrim shareholders approve the Transaction at a special meeting of shareholders to be held on April 4, 2014 (the "Meeting"). On March 17, 2014 the Payment and Oil Swap was amended to allow for completion of the Transaction. Under the amendment, the Transaction is to be completed by April 15, 2014. Nevertheless, there is no assurance that these initiatives will be successful.

Pursuant to the terms of the Payment and Oil Swap, following an event of default by Antrim, Antrim's lender may demand payment of their indebtedness (together with accrued interest), or alternatively, may realize on their security at any time. If the Transaction is not approved by Antrim Shareholders, or is delayed or not completed for any other reason or if the Meeting is adjourned or otherwise delayed, and as a result Antrim is declared to be in default of its obligations, the lender may apply to a court to appoint a receiver or administrator for an order to sell certain of Antrim's assets to generate sufficient proceeds to repay the debt owed. If the lender chose to realize on their security, Antrim may no longer be able to carry on business as a going concern.

### 2) Basis of Presentation

### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at March 27, 2014, the date the Board of Directors approved the annual consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except as explained in note 3, Summary of Significant Accounting Policies. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The accounting policies described in note 3 have been applied consistently to all periods presented in these financial statements except for, as a result of changes in the composition of revenue and costs, management has determined that the functional currency of the Company's UK operations is more closely linked to the United States ("US") dollar. Accordingly, effective January 1, 2013, this operation has been accounted for as a US functional currency entity. As a result, foreign currency translation adjustments remain in accumulated other comprehensive income until the Company reduces its ownership in its UK subsidiary.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### b) Presentation currency

In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States ("US") dollars. The Company has adopted the US dollar as its presentation currency to facilitate a more direct comparison to North American oil and gas companies with international operations.

### c) Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following are the critical judgments and estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

### **Estimation of reserve quantities**

Depletion, impairment and decommissioning charges are dependent on the Company's estimate of oil and gas reserves. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Reserves have been evaluated at the balance sheet date by an independent qualified reserve evaluator in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and are based on the definitions and guidelines contained in the Canadian Oil and Gas Evaluation Handbook.

Oil and gas reserve estimates are based on a range of geological, technical and economic factors including projected future rates of production, estimated commodity prices, engineering data, reserve type and timing and amount of future expenditures, all of which are subject to uncertainty. Assumptions reflect market and regulatory conditions existing at the balance sheet date, which could differ significantly from other points in time throughout the year, or future periods. Changes in market and regulatory conditions and assumptions can materially impact the estimation of net reserves.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### Recoverability of exploration and evaluation costs

Exploration and evaluation costs are initially capitalized with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Fluctuations in future commodity prices, resource quantities, expected production techniques, drilling results, production costs and required capital expenditures are important factors when making this determination. If a judgment is made that extraction of the reserves is not viable, the exploration and evaluation costs will be written off to net earnings. See note 8.

### **Decommissioning obligations**

The Company recognizes liabilities for the future decommissioning and restoration of property, plant and equipment. These provisions are based on estimated costs, which take into account the anticipated method and extent of restoration consistent with legal requirements, technological advances and the possible use of the site. Actual costs are uncertain and estimates can vary as a result of changes to relevant laws and regulations, the emergence of new technology, operating experience and prices. The actual timing of future decommissioning and restoration is not known and may change due to certain factors, including reserve life. Changes to assumptions made about future expected costs, discount rates, inflation and timing may have a material impact on the amounts presented. The Company has chosen to measure decommissioning obligations using a risk-free discount rate. See note 11.

### Impairment of property, plant and equipment

The recoverable amounts of cash-generating units ("CGUs") and individual assets have been determined based on greater of value-in-use or fair value less cost of disposal calculations. The key assumptions the Company uses in estimating future cash flows for purposes of calculating value-in use or fair value less cost of disposal are future oil prices, expected production volumes, future development costs, operating costs and the discount rate applied to reflect the time value of money. Changes to these assumptions will affect the recoverable amounts of cash-generating units and individual assets and may then require a material adjustment to their related carrying value.

The determination of CGUs requires judgement in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality. See note 7.

### Fair value of share-based compensation

The fair value of share-based compensation is calculated using a Black-Scholes option-pricing model. There are a number of estimates used in the calculation such as future forfeiture rate, expected option life and the future price volatility of the underlying security which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts. See note 13.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### Fair value of financial derivative

The fair value of the financial derivative is estimated based upon market and third party inputs. These estimates are subject to changes with fluctuations in commodity prices.

### **Deferred income taxes**

Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in the foreseeable future. To the extent that future taxable income and the application of existing tax laws in each jurisdiction differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

### d) Adoption of new accounting policies

On January 1, 2013, the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards resulted in certain additional disclosure but otherwise had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

### 3) Summary of Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the consolidated financial statements:

### a) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intra-company transactions, balances, income and expenses are eliminated on consolidation.

### b) Foreign currency translation

Items included in the financial statements of each of the Company's consolidated subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("the functional currency"). The consolidated financial statements are presented in US dollars ("the presentation currency").

In preparing the financial statements of the Company's subsidiaries, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the appropriate functional currency at foreign exchange rates at the balance sheet date. Foreign exchange differences arising on translation are recognized in earnings. Non-monetary assets that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

the transactions.

The results and financial position of all the Company's consolidated subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii) income and expenses for each year are translated at average exchange rates; and
- iii) all resulting exchange differences are recognized in a separate component of equity called 'accumulated other comprehensive income'.

When a foreign operation is disposed of, a proportionate share of the cumulative exchange differences previously recognized in other comprehensive income is recognized in the statement of loss, as part of the gain or loss on sale where applicable.

### c) Jointly controlled operations and jointly controlled assets

A significant portion of the Company's operations are conducted with others and involve jointly controlled assets. The consolidated financial statements reflect only the Company's interest in such activities and assets or liabilities.

### d) Oil and natural gas exploration and evaluation expenditures

### **Pre-licence costs**

Costs incurred prior to obtaining the legal right to explore for hydrocarbon resources are expensed in the period in which they are incurred.

### **Exploration and evaluation costs**

Exploration and evaluation assets are stated at cost, less accumulated impairment losses.

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include licence costs, geological and geophysical costs, employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration asset is tested for impairment. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g. by drilling further wells), are likely to be developed commercially, the costs continue to be carried as exploration and evaluation assets while sufficient and continued progress is made in assessing the commerciality of the hydrocarbons. All such costs are subject to technical, commercial and management review as well as review for impairment indicators at each period end to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved and probable reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognized.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### e) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligations and borrowing costs for qualifying assets. Expenditures on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling and completion of development wells, including unsuccessful development or delineation wells, is capitalized within property, plant and equipment. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment.

### **Depletion and depreciation**

Oil and gas assets within property, plant and equipment are depleted on a unit-of-production basis over the proved and probable reserves of the field concerned. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over its estimated useful lives, as follows:

Office equipment 5 years Computer hardware and software 3 years

### f) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost of disposal to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognized in the consolidated statement of loss and comprehensive loss.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

### g) Financial assets

Financial assets are measured at fair value on the balance sheet upon initial recognition of the instrument. Subsequent measurement and changes in fair value will depend on initial classification, as follows:

- fair value through profit or loss financial assets and liabilities, classified as held for trading or designated as fair value through profit or loss, are measured at fair value and subsequent changes in fair value are recognized in income;
- (ii) loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market;
- (iii) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in equity until the instrument or a portion thereof is derecognized or impaired at which time the amounts would be recognized in income; and
- (iv) held to maturity financial assets and loans and receivables are initially measured at fair value with subsequent measurement at amortized cost using the effective interest rate method. The effective interest rate method calculates the amortized cost of a financial asset and allocates interest income or expense over the applicable period. The rate used discounts the estimated future cash flows over either the expected life of the financial asset or liability or a shorter time-frame if it's deemed appropriate.

Antrim's current classifications are as follows:

- (i) cash and cash equivalents are designated as loans and receivables;
- (ii) restricted cash is designated as loans and receivables; and
- (iii) accounts receivable are designated as loans and receivables.

### h) Financial liabilities

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") are classified as financial liabilities at fair value through profit or loss or as other financial liabilities at amortized cost, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012

(Amounts in US\$ thousands)

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Company's financial liabilities include accounts payables, debt and financial derivative and all are classified as other financial liabilities at amortized cost with the exception of the financial derivative which is a financial liability at fair value through profit or loss.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

### i) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

### j) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of crude oil is the cost to produce, including the appropriate proportion of depletion and depreciation and overheads, including all costs incurred in the normal course of business in bringing each product to its present location and condition, and is accounted on a weighted average basis. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any expected selling costs.

### k) Assets held for sale

Non-current assets, or disposal groups consisting of assets and liabilities, are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probably and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net earnings in the period measured.

Non-current assets and disposal groups held for sale are presented in current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depreciated, depleted or amortized.

Income and expenses related to discontinued operations are classified as income (loss) from discontinued operations within the consolidated statements of comprehensive loss and the cash flows.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### 1) Provisions

### General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### **Decommissioning obligations**

Decommissioning obligations are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the relevant asset category to which they relate. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a risk-free interest rate.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the relevant asset category. The unwinding of the discount on the decommissioning obligations is included as a finance cost.

### m) Taxes

### **Current income tax**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

#### **Deferred** tax

The Company follows the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

### n) Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the Company and the amount of the revenue can be measured reliably and collectability is reasonably assured. In particular, revenue from the production and sale of crude oil is recognized when the title has been transferred to customers, which is when risk and rewards pass to the customer. This occurs when product is physically transferred into a shipping vessel.

Deferred revenue is recognized when cash is received and no crude oil has been lifted from the terminal therefore title and risk has not been transferred to the buyer.

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive loss.

### o) Share-based compensation

Equity-settled share-based compensation to directors, employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based compensation is expensed on a graded basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### p) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed in a similar way to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

### q) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

## r) Standards issued but not yet effective

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2014 unless otherwise stated.

IFRS 9 - Financial Instruments: The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. This standard is effective for annual periods beginning on or after January 1, 2015 with different transitional arrangements depending on the date of initial application. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after January 1, 2014. Adopting this standard is expected to have minimal or no impact on the consolidated financial statements.

### 4) Discontinued operations

The Company entered into an agreement (the "Agreement") on February 7, 2014 with First Oil Expro Limited ("FOE") pursuant to which, subject to the terms and conditions of the Agreement, FOE has agreed to purchase from the Company (the "Transaction") all of the issued and outstanding shares in the capital of Antrim's UK subsidiary, Antrim Resources (N.I.) Limited ("ARNIL") for \$53 million in cash, plus the assumption of certain liabilities and adjusted working capital, from which Antrim will settle on closing all outstanding obligations under its Payment and Oil Swap agreements. The economic date of the proposed transaction is January 1, 2014. Antrim will retain its interest in P077 Block 21/28a (the "Fyne Licence") and P1875 Block 21/29d (the "Erne Licence"), as well as FEL 1-13 in the Porcupine Basin offshore Ireland. During the reclassification of operations as held for sale, assets of \$14.6 million were identified as being impaired. See note 7.

## Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

This divestiture is conditional upon, among other things, the approval of Antrim shareholders and the receipt of applicable regulatory approvals. The major classes of assets and liabilities comprising the operations classified as held for sale at the balance sheet date are as follows:

	December 31
	2013
Assets held for sale	,
Cash and cash equivalents	-
Restricted cash	6,687
Accounts receivable	3,512
Inventory and prepaid expenses	6,811
Property, plant and equipment	71,832
Exploration and evaluation assets	
	88,842
Liabilities held for sale	
Accounts payable and accrued liabilities	10,472
Debt	20,159
Financial derivative	8,158
Deferred revenue	2,990
Decommissioning obligations	16,198
	57,977

The combined results of the discontinued operations which have been included in the consolidated statement of loss and comprehensive loss are as follows. The comparative period income and cash flows from discontinued operations have been reclassified to include those operations classified as discontinued in the current period:

	December 31 2013	December 31 2012
Discontinued operations		
Revenue	25,199	-
Expenses		
Direct production and operating expenditures	4,745	-
Depletion and depreciation	12,734	-
Impairment	26,729	-
Finance costs	5,805	54
Loss on financial derivative	4,220	-
Foreign exchange loss	723	-
Loss from discontinued operations	(29,757)	(54)

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### 5) Restricted cash

	December 31	December 31
	2013	2012
Operating costs standby letter of credit	=	808
Restricted cash	-	808

Restricted cash balances at December 31, 2013 are included in assets held for sale. Restricted cash at December 31, 2012 relates to a British pounds sterling standby letter of credit issued to the Sullom Voe terminal.

## 6) Inventory and prepaid expenses

	December 31	December 31
	2013	2012
Crude oil inventory	-	4,498
Prepaids	539	1,379
	539	5,877

Inventory represents linefill and oil stocks available for sale. Inventory at December 31, 2013 is included in assets held for sale. Included within inventory at December 31, 2012 is depletion of \$3,372.

### 7) Property, plant and equipment

	December 31	December 31
	2013	2012
Opening balance	81,069	15,207
Additions	23,590	58,250
Depletion and depreciation	(13,612)	(3,466)
Impairment	(26,540)	-
Changes in decommissioning estimate	7,393	158
Transferred from exploration and evaluation assets	-	9,347
Foreign currency translation	(4)	1,573
Reclassified to assets held for sale	(71,832)	<u> </u>
Closing balance	64	81,069

During the year, the Company capitalized \$207 (2012 - \$152) of general and administrative and \$142 (2012 - \$61) of share-based compensation related to development activity.

In the third quarter of 2013, the Company recognized an impairment charge of \$12.1 million related to Causeway following further delays in completing the Causeway electric submersible pump and water injection facilities together with additional significant capital cost overruns on the project. The Causeway CGU was written down to the estimated recoverable amount based on fair value less cost of disposal. The estimated fair value was determined using future cash flows adjusted for risks specific to the asset and discounted using an after tax discount rate of 15%.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012

(Amounts in US\$ thousands)

At December 31, 2013, the Company assessed the carrying amount of its property, plant and equipment assets for indicators of impairment. For assets to be disposed of, the recoverable amount is fair value less costs of disposal rather than value in use. In 2014, the Company agreed to the sale of the Company's Causeway, Kerloch and Cormorant East assets to be structured as a sale of all of the issued and outstanding shares in Antrim's UK subsidiary, Antrim Resources (N.I.) Limited ("ARNIL") for \$53 million in cash, plus the assumption of certain liabilities. In the fourth quarter of 2013, the Company recognized an impairment charge of \$14.6 million with respect to the proposed transaction and assets to be disposed of.

In November 2012, the Field Development Plan ("FDP") for the Cormorant East Field was approved by the Department of Energy and Climate Change ("DECC"). As a result, \$9,347 of accumulated exploration and evaluation costs were transferred to property, plant and equipment at that time.

#### 8) Exploration and evaluation assets

	December 31	December 31
_	2013	2012
Opening balance	6,931	122,431
Additions	684	9,219
Changes in decommissioning estimate	475	1,850
Impairment	(7,006)	(122,698)
Transferred to property, plant and equipment	-	(9,347)
Foreign currency translation	41	5,476
Closing balance	1,125	6,931

Exploration and evaluation assets at December 31, 2013 relate to the Company's Ireland Frontier Exploration Licence. During the year, the Company capitalized \$226 (2012 - \$425) of general and administrative costs and \$66 (2012 - \$137) of share-based compensation related to exploration and evaluation activity.

In the third quarter of 2013, the Company recognized an impairment charge of \$7.0 million relating to the West Causeway licence as the licence was nearing the end of its exploration term.

In January 2013, the Company elected not to participate in further development work on the Fionn Field. As a result, an impairment charge of \$50,358 in 2012 was recognized, representing the full carrying value relating to the Fionn Field CGU. Antrim retains a 35.5% interest in the remainder of Licence P201 Block 211/22a South East Area.

In the fourth quarter of 2012 Licence P1625 Block 21/24b ("West Teal") was nearing the end of its initial exploration term and based on an evaluation performed by management the licence was not considered economically viable. As a result the Company recognized an impairment charge of \$1,840 in 2012 representing the full carrying value of this licence.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

In December 2012, the Company announced that the Cyclone exploration well in UK Block 21/7b was plugged and abandoned. As a result, an impairment charge of \$5,939 was recognized in 2012 representing the full carrying value relating to this licence.

In October 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c ("Carra") which allowed the Company to relinquish the licence in its entirety. The Company recognized an impairment charge of \$2,304 in 2012 representing the full carrying value of this licence.

As at March 31, 2012 management performed an impairment assessment on the carrying value of the Fyne Licence CGU as there were indications that the recoverable value may be impaired. The facts and circumstances considered included the abandonment of the East Fyne appraisal well, the expectation that the gross Fyne Field reserves would likely decline by approximately 36%, the withdrawal of Premier Oil UK Limited ("Premier") and FOE from the Joint Operating Agreement ("JOA"), the risk that Antrim may not obtain approval of an FDP from DECC, the risk of Antrim not finding partners and the challenge in securing funding for the project in a difficult market. In light of these events management determined that the carrying value of the Fyne Licence CGU was impaired. The carrying value of the Fyne Licence was written down to a \$nil value with the Company incurring a \$60,112 impairment charge in the first quarter of 2012. Contingent consideration of \$10,000 on the acquisition of the Fyne Field is payable to the seller upon approval of an FDP by DECC. As at March 31, 2012, a reduction in the fair value of contingent consideration from \$7,000 to \$nil was recorded based on the impairment assessment performed with respect to the Fyne Licence. Exploration and evaluation expenses in 2013 relate primarily to the Fyne Licence.

The Company recognized an impairment charge in 2012 of \$2,144 relating to the Erne discovery well 21/29d-11 and the sidetrack well 21/29d-11Z. Post-well analysis of these two wells by the Company's independent reserve evaluation engineers did not result in any reserves being assigned at this time.

#### **9) Debt**

	December 31	December 31	
	2013	2012	
Opening balance	-	-	
Additions	21,444	-	
Payments	(5,350)	-	
Interest on long-term debt	3,332	-	
Amortization of transaction costs	733	-	
Reclassified to liabilities held for sale	(20,159)		
Closing balance	<u> </u>	-	
	•		

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

In January 2013, the Company entered into a \$30 million payment swap transaction with a major financial institution. Under the terms of the transaction, \$30 million is repayable in 29 instalments commencing September 2013 and concluding January 2016. To enable the Company to pay amounts under the payment swap the Company also entered into a Brent Oil Price Commodity Swap to forward sell 657,350 barrels of Brent crude oil at an initial fixed price of \$89.37 covering the period from February 2013 to December 2015 (see note 23). The estimated fair value of the credit-adjusted financial derivative on inception was \$7,133. The payment swap was measured based on the present value of the cash received offset by the fair value of the financial derivative. The actual principal amount of bank debt outstanding at December 31, 2013 is \$24,650. The payment swap will be accreted to its face value through a charge to earnings using the effective interest method at a discount rate of 24.3%. Transaction costs of \$1,423 are amortized over the term of the contract.

The Company is subject to financial and operating covenants related to the payment swap. The Company is in breach of certain covenants and had insufficient cumulative production to remove restrictions related to the use of proceeds from oil sales. In addition, the Company now anticipates higher than expected capital costs to complete the Causeway development for which the Company is subject to requirements to place additional funds into a reserve account with the lender. Failure to meet the terms of one or more of these covenants may potentially result in accelerated repayment of the debt obligations and accordingly the full amount of the outstanding debt has been classified as current. On March 17, 2014 the Payment and Oil Swap was amended to allow for completion of the Transaction. Under the amendment, the Transaction is to be completed by April 15, 2014. Security provided against the loan is in the form of intercompany guarantees and a floating charge over the Company's UK assets. See note 1.

### 10) Deferred revenue

	December 31	December 31
	2013	2012
Deferred revenue	-	1,089

Deferred revenue relates to oil sales which have been invoiced during the year but have not been lifted from the terminal therefore title and risk has not been transferred to the buyer (see note 16). In 2013, the deferred revenue balance was reclassified to assets held for sale.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### 11) Decommissioning obligations

	December 31	December 31
	2013	2012
Opening balance	10,270	3,595
Additions	759	4,259
Accretion	220	145
Change in estimate	8,056	3,370
Dispositions	-	(1,362)
Foreign currency translation	1,023	263
Reclassified to liabilities held for sale	(16,198)	-
Closing balance	4,130	10,270

At December 31, 2013, the estimated undiscounted decommissioning obligations are \$4,269 (2012 - \$11,218). The undiscounted obligation is forecast to be payable in 2016.

The change in estimate in 2013 is primarily related to increased costs estimates for the reclamation of producing wells as well as water injection and suspended wells. The change in estimate in 2012 is primarily related to increased costs estimates for the reclamation of suspended wells, changes in working interest and revision to the timing of future decommissioning obligation cash flows.

The present value of the decommissioning obligations has been calculated using a risk-free interest rate of 2.17% (2012 - 1.6%) and an inflation rate of 2.0% (2012 - 2.0%).

## 12) Share capital

### **Authorized**

Unlimited number of common voting shares

Common shares issued	Number of	Amount
	Shares	\$
Balance, December 31, 2011	184,116,078	361,587
Exercise of stock options	614,998	186
Transfer from contributed surplus		149
Balance, December 31, 2012 and 2013	184,731,076	361,922

(Amounts in US\$ thousands)

### 13) Share-based compensation

The Company has a program whereby it may grant options to its directors, officers and employees to purchase up to 10% of the issued and outstanding number of common shares. The exercise price of each option is no less than the market price of the Company's stock on the date of grant. Stock option terms are determined by the Company's Board of Directors but options typically vest evenly over a period of three years from the date of grant and expire five years after the date of grant.

Share-based compensation for the year was \$901 (2012 - \$1,196) of which \$693 (2012 - \$998) was expensed and \$208 (2012 - \$198) was capitalized.

The following table illustrates the number and weighted average exercise prices of and movements in share options under the option program during the year.

	2013		201	12
	# of Ontions	Weighted average exercise price Cdn \$	# of Ontions	Weighted average exercise price Cdn \$
	# of Options		# of Options	
Outstanding at January 1	12,350,065	0.98	9,168,063	2.12
Granted	500,000	0.20	6,985,000	0.60
Cancelled	-	-	(983,338)	2.58
Forfeited	(3,045,065)	0.83	(451,662)	1.01
Expired	(2,230,000)	2.08	(1,753,000)	4.57
Exercised		-	(614,998)	0.30
Outstanding at December 31	7,575,000	0.67	12,350,065	0.98
Exercisable at December 31	3,571,680	0.82	4,581,742	1.56

The weighted average share price on the exercise date for share options exercised in 2012 was \$0.77.

The range of exercise prices of the outstanding options is as follows:

	Options outstanding Options exercisal		ble			
Range of exercise prices Cdn \$	Weighted- average exercise price Cdn \$	Number outstanding at December 31, 2013	Weighted- average years remaining contractual life	Weighted- average exercise price Cdn \$	Number outstanding at December 31, 2013	Weighted- average years remaining contractual life
0.20 - 1.00	0.57	5,895,000	3.52	0.61	1,891,680	3.35
1.01 - 1.11	1.02	1,680,000	1.71	1.02	1,680,000	1.71
	•	7,575,000	•		3,571,680	

## Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012

(Amounts in US\$ thousands)

The fair values of options granted during the year were calculated using a Black Scholes valuation model. The principal inputs to the option valuation model were:

	2013	2012
Weighted average share price	0.20	0.60
Weighted average exercise price	0.20	0.60
Weighted average expected volatility	83.63%	80.54%
Option life	4.5 years	4.5 years
Dividend yield	Nil	Nil
Weighted average risk-free interest rate	1.24%	1.19%
Forfeiture rate	10%	10%

Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected lifetime of the options.

## 14) Gain on disposal of assets

In July 2013, the Company sold its option to acquire up to a 30% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence offshore and onshore Tanzania. Cash consideration paid to the Company was \$7.5 million. There were no wells, production, reserves or resources associated with the transaction and the Company recorded a gain of \$7.5 million associated with the transaction.

#### 15) Earnings per share

Earnings per snare	2013	2012
	(0.445)	(124.005)
Loss from continuing operations	(9,445)	(134,805)
Income (loss) from discontinued operations	(29,757)	261
Net loss for the year	(39,202)	(134,544)
Basic earnings per share was calculated as follows:		
Weighted average number of common shares:		
Issued common shares	184,731,076	184,116,078
Effect of share options exercised	-	272,074
Weighted average number of common shares – basic	184,731,076	184,388,152
Diluted earnings per share was calculated as follows:		
Weighted average number of common shares:		
Weighted average number of common shares – basic	184,731,076	184,388,152
Effect of outstanding options	-	1,140,005
Weighted average number of common shares – diluted	184,731,076	185,528,157
Basic and diluted loss (income) per common share		
From continuing operations	(0.05)	(0.73)
From discontinued operations	(0.16)	0.00
Total basic and diluted loss per share	(0.21)	(0.73)

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

For the years ended December 31, 2013 and 2012, all stock options were anti-dilutive and were not included in the diluted common share calculation.

#### 16) Revenue

	2013	2012
Sales invoiced	-	1,089
Deferred revenue at the end of the year		(1,089)
Sales recognized as revenue	_	-

Revenue is recognized when title and risk transfer to the purchaser, which is at the time of lifting of the oil into the tanker at the Sullom Voe terminal. All sales are made under contract to one UK customer. Under the contract with the purchaser, Antrim invoices and receives payment for its oil in the month after production; however, the purchaser retains certain rights impacting the timing of liftings which may result in no sales in a particular month resulting in deferred revenue.

### 17) General and administrative expenses

	2013	2012
Wages and salaries	2,307	3,770
Occupancy	551	467
Administrative	2,309	2,253
Travel	162	315
Overhead recovery	(544)	(962)
	4,785	5,843

Total employee benefits expenses, including share-based compensation for the year ended December 31, 2013 were \$2,838 (2012 - \$4,966).

#### 18) Finance income

2013	2012
2	276
2012	2012
	2013

	2013	2012
Debt financing	987	-
Accretion of decommissioning obligation	60	91
Bank charges	16	68
	1,063	159

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

## 20) Supplemental cash flow information

	2013	2012
(Increase)/decrease of assets:		_
Trade and other receivables	(3,366)	4,962
Inventory and prepaid expenses	(828)	(2,284)
Increase/(decrease) of liabilities:		
Trade and other payables	(4,754)	2,039
	(8,948)	4,717
Cash and cash equivalents are comprised of:		
Cash in bank	1,082	1,503
Short-term deposits	-	
	1,082	1,503

## 21) Income taxes

The differences between the expected income tax provision and the reported income tax provision are summarized as follows:

	2013	2012
Loss from continuing operations before income taxes	9,445	134,805
Statutory income tax rate	25%	25%
Expected recovery	2,361	33,701
Increase (decrease) in taxes resulting from:		
Non-deductible expenses	(1,375)	(16,682)
Effect of different tax rates in foreign jurisdictions	(8,108)	(10,761)
Changes in statutory rate changes in the year	-	412
Benefit of tax losses not recognized	7,122	(6,670)
	-	

The statutory tax rate was 25% in 2013 (2012 - 25%).

There was no income tax expense in 2013 and 2012 relating to discontinued operations.

(Amounts in US\$ thousands)

### **Deferred income tax**

The deferred income tax assets are comprised of the following:

	December 31	December 31
	2013	2012
Property, plant and equipment	961	(25,083)
Decommissioning obligations	1,239	3,081
Non-capital losses	9,256	94,165
Capital losses	3,444	1,447
Share issuance and financing costs	276	1,103
Other	321	249
Unrecognized deferred tax asset	(15,497)	(74,962)
	<del></del>	<u>-</u> _

The Company has unused non-capital tax losses attributable to continuing operations of \$37,038 (2012 – \$310,676) to carry forward against future taxable income of subsidiaries in which the losses arose. At December 31, 2013, the Company had the following available tax loss carryforwards:

	Expiry Dates	\$
Loss carryforwards attributable to continuing		
operations:		
Canada	2014-2031	37,023
United Kingdom	No Expiry	-
Ireland	No Expiry	15
		37,038

## 22) Commitments and contingencies

The Company has commitments in respect of its petroleum and natural gas properties and operating leases as follows:

	2014	2015	2016	2017	2018	Thereafter
(\$000's)						
Office Leases	240	251	251	233	10	-
Ireland	350	-	-	-	-	-
United Kingdom						
Continuing operations:						
Fyne (1)	34	34	34	-	-	-
Erne	14	-	-	-	-	-
Assets held for sale:						
Causeway (2)	4,734	27	29	32	32	32
Cormorant East	1,804	8	8	8	8	8
Total	7,176	320	322	273	50	40

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

- (1) In March 2013, the Company decided not to proceed with development of the Fyne Field using an FPSO. The Company continues to hold the licence pending further evaluation using buoy technology. The Crinan Field was relinquished in July 2013.
- (2) Relates to Antrim's 35.5% interest in the Causeway Licences.

## **Contingencies**

In 2011, the Company entered into a variation to an existing contract for drilling management services in the UK North Sea which required the drilling of two wells, estimated to take 50 days in a letter of intent preceding the contract variation. The Company contends that it met its contractual obligations under this variation through the drilling of the Erne pilot well (21/29d-11) and the Erne sidetrack well (21/29d-11Z). The drilling of these two wells took place over a period of 58 days. Subsequent to releasing the rig, the Company received an invoice from the drilling management services contractor charging the Company for approximately \$5 million in additional costs as the contractor claims all conditions of the contract had not yet been satisfied.

In July 2012, the drilling management services contractor filed a claim against the Company for the additional invoice costs plus interest and lost management time. The Company has filed a defence against this claim in the High Court of England and Wales and believes it is more likely than not that it will not have to pay. As a result, a contingent liability has not been recorded. Under the Transaction the claim is to remain with ARNIL.

### **Operating lease arrangements**

	2013	2012
Minimum lease payments under operating leases		
recognized as an expense in the year	551	470

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013	2012
Within one year	240	358
In the second to fifth years inclusive	744	1,464
	984	1,822

Operating lease payments represent net rentals payable by the Company for its office properties. Current lease arrangements expire at the end of February 2018.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

#### 23) Financial instruments and financial risks

#### **Financial instruments**

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification. The classification categories, which depend on the purpose for which the financial instruments were acquired and their characteristics include held-fortrading, available-for-sale, held-to-maturity, loans and receivables, investments, and other liabilities. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

The Company's financial instruments consist of cash, cash equivalents, restricted cash, accounts receivable, other non-current assets, accounts payable, debt and financial derivative. Cash and cash equivalents, restricted cash, and accounts receivable are classified as loans and receivables and are accounted for at amortized cost. Accounts payable are classified as other liabilities and are accounted for at amortized cost. Due to the short-term maturity of these financial instruments, fair values approximate carrying amounts. Debt is classified as other financial liabilities and is accounted for at amortized cost. The financial derivative is classified as a financial liability at fair value through profit or loss.

#### **Financial risks**

The Company is exposed to financial risks encountered during the normal course of its business. These financial risks are composed of credit risk, liquidity risk and market risk including commodity price and foreign currency exchange risks.

#### (a) Credit risk

The Company is exposed to the risk that its counterparties will fail to discharge their obligations to the Company on its cash, cash equivalents, accounts receivable and certain non-current assets.

Cash and cash equivalents and restricted cash are on deposit with reputable Canadian and international banks, and therefore the Company does not believe these financial instruments are subject to material credit risk. The Company sells all of its production to one oil and natural gas marketer and therefore is subject to concentration risk. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience and its investment grade credit rating as established by independent credit rating agencies.

The Company's sales from discontinued operations in 2013 were all to a single customer. Factors included in the assessment of accounts receivable for impairment are the relationship between the purchaser and the Company and the age of the receivable.

The extent of the Company's credit risk exposure is identified in the following table:

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012

(Amounts in US\$ thousands)

	December 31	December 31
Current	2013	2012
Cash and cash equivalents	1,082	1,503
Restricted cash	-	808
Accounts receivable	184	332
	1,266	2,643

The Company's credit risk exposure with respect to assets held for sale is identified in the following table:

	December 31	December 31
	2013	2012
Restricted cash	6,687	-
Accounts receivable	3,512	-
	10,199	-

### (b) Liquidity risk

The Company is exposed to liquidity risk from the possibility that it will encounter difficulty meeting its financial obligations. The Company manages this risk by forecasting cash flows in an effort to identify future liabilities and arrange financing, if necessary. It may take many years and substantial cash expenditures to pursue exploration and development activities on all of the Company's existing undeveloped properties. Accordingly, the Company will need to raise additional funds from outside sources in order to explore and develop its properties. There is no assurance that adequate funds from debt and equity markets will be available to the Company in a timely manner.

As at December 31, 2013 the Company was in breach of certain covenants including its capex reserve and debt service cover ratio covenants and had insufficient cumulative production to remove restrictions related to the use of proceeds from oil sales. In addition, the Company now anticipates higher than expected capital costs to complete the Causeway development for which the Company is subject to requirements to place additional funds into a reserve account with the lender. Failure to meet the terms of one or more of these covenants may potentially result in accelerated repayment of the debt obligations and accordingly the full amount of the outstanding debt has been classified as current. See note 1 Going Concern.

At December 31, 2013 the Company had a working capital surplus of \$788 compared to a working capital deficiency of \$10,734 as at December 31, 2012. Without the reclassification of assets and liabilities held for sale, Antrim had a working capital deficiency at December 31, 2013 of \$23,981, including bank debt (after discount) of \$20,159 and financial derivative (after discount) of \$8,158.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

The following table shows the timing of cash outflows relating to accounts payable and accrued liabilities, current debt and the financial derivative liability as at December 31, 2013.

	Within	
	1 year	1 to 5 years
Accounts payable and accrued liabilities	11,489	_
Current debt	20,159	-
Financial derivative	8,158	_

## (c) Market risk

Market risk consists of commodity price risk and foreign currency exchange risk.

### Commodity price risk

Currently all of the Company's production revenue is from one property in the UK. Commodity price risk related to crude oil production represents a significant market risk exposure. Crude oil prices and quality differentials can be influenced by global supply and demand factors as well as political events, quotas imposed on members of the Organization of Petroleum Exporting Countries (OPEC) and weather.

At December 31, 2013, the Company had the following financial derivative contract:

		Undelivered		Fair	
		Volumes	Fixed price	value	
Derivative	Term	Bbl	\$/bbl	\$	
Oil Swaps	October 2013 – December 2015	494,652	\$81.21	8,158	_

For the year ended December 31, 2013 the financial derivative liability movements were:

	December 31	December 31
	2013	2012
Opening balance	-	-
Additions	7,133	-
Settlements	(2,225)	-
Unrealized loss on financial derivative	3,250	-
Reclassified to liabilities held for sale	(8,158)	
Closing balance	-	_

If the Company had settled the financial derivative at December 31, 2013 the payment amount would have been \$10.6 million.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### Foreign currency exchange risk

The Company is exposed to fluctuations in foreign currency exchange rates as many of the Company's financial instruments are denominated in United States dollars, Canadian dollars and British pounds sterling ("£"). As a result, fluctuations in the United States dollar against the Canadian dollar and British pound sterling could result in unanticipated fluctuations in the Company's financial results. The Company seeks to minimize foreign exchange risk by holding cash and cash equivalents in United States dollars when not required in support of current operations.

### **Capital management**

The Company's objective when managing its capital is to safeguard the Company's ability to continue as a going concern, maintain adequate levels of funding to support its exploration and development program, and provide flexibility in the future development of its business. The ability of the Company to successfully carry out its business plan is dependent upon the continued support of its shareholders, attracting joint venture partners, the discovery of economically recoverable reserves and the ability of the Company to obtain financing to develop reserves. The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity and/or debt, selling assets, and controlling capital expenditure programs. The Company intends to fund its planned capital program through existing cash resources, debt and through cash generated from production at Causeway.

The Company's capital structure at December 31, 2013 consisted of cash and cash equivalents, bank debt and shareholders' equity. Shareholders' equity includes shareholders' capital, contributed surplus, and accumulated other comprehensive loss and deficit.

The capital structure of the Company consists of:

	December 31	December 31
	2013	2012
Cash and cash equivalents	1,082	1,503
Shareholders' equity	28,712	66,996
	29,794	68,499

Current restrictions on the availability of credit may limit the Company's ability to access debt or equity financing for its development projects. See note 1, Going Concern. The Company forecasts cash flows against a range of macroeconomic and financing market scenarios in an effort to identify future liabilities and arrange financing, if necessary. Although the Company may need to raise additional funds from outside sources, if available, in order to develop its oil and gas properties, the Company seeks to maintain flexibility to manage financial commitments on these assets.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

Methods employed to adjust the Company's capital structure could include any, all or a combination of the following activities:

- (i) Issue new shares through a public offering or private placement;
- (ii) Issue equity linked or convertible debt;
- (iii) Raise fixed or floating rate debt;
- (iv) Sell or farmout existing exploration, development and producing assets.

### 24) Related party transactions

The financial statements include the financial statements of Antrim and the subsidiaries listed in the following table:

		Equity interest in %	
	Country of		_
Subsidiary	Incorporation	2013	2012
Antrim Energy Ltd.	Bahamas	100	100
Antrim Exploration (Ireland) Limited	Ireland	100	100
Antrim Resources (N.I.) Limited	United Kingdom	100	100

### Compensation of key management personnel of the Company

Key management personnel include directors and executives of the Company. The compensation paid or payable to key management personnel is as follows:

	2013	2012
Short-term employee benefits	1,304	2,190
Share-based compensation	788	792
Total compensation of key management personnel	2,092	2,982

The total aggregate amount payable by Antrim in respect of severance to executives who could voluntarily terminate their employment agreement upon closing of the Transaction is approximately \$1,800.

#### Other related party transactions

The Company may from time to time enter into arrangements with related parties which are accounted for at the exchange amount. In 2013, the Company incurred fees of \$328 (2012 - \$422) payable to Burstall Winger LLP, a law firm in which a director of the Company is a partner.

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

### 25) Discontinued operations - Argentina

The Company entered into an agreement on March 23, 2012 to sell all of its interest in its wholly owned subsidiary Antrim Argentina S.A. to Crown Point Energy Inc. ("Crown Point") (formerly known as Crown Point Ventures Ltd.) by way of a plan of arrangement (the "Arrangement"). The consideration consisted of Cdn \$10,262 in cash (subject to certain adjustments) and 35,761,290 common shares of Crown Point ("Crown Point Shares"). Pursuant to the Arrangement, Antrim would distribute the Crown Point Shares to its shareholders.

On May 28, 2012, Antrim completed the sale of Antrim Argentina S.A. to Crown Point. Under the terms of the Arrangement, the Company received a cash payment of \$9,976 (Cdn \$10,262) and 35,761,290 Crown Point Shares. The actual cash payment received was netted against adjustments of \$1,015 (Cdn \$1,016) which have been recognized as sale transaction costs. These sale transaction costs, along with costs of \$1,886 incurred by the Company, have been offset against income from discontinued operations.

Details of the disposition are as follows:

	2012
Consideration received:	
Cash	9,976
Crown Point Shares (based on a May 28, 2012 share price of Cdn \$0.80)	27,811
	37,787
Carrying value of assets and liabilities disposed:	
Working capital	9,388
Property, plant and equipment	19,886
Exploration and evaluation assets	719
Other non-current assets	1,189
Decommissioning obligations	(2,502)
Total carrying value of assets and liabilities disposed	28,680
Gain on disposal excluding foreign currency translation adjustment	9,107
Foreign currency translation adjustment relating to disposal	(3,213)
Gain on disposal after foreign currency translation adjustment	5,894

Antrim distributed the Crown Point Shares to its shareholders on June 7, 2012 (the "Distribution Date"). On the Distribution Date, Crown Point's closing share price on the TSX Venture Exchange was Cdn \$0.51 which had decreased from the May 28, 2012 closing share price of Cdn \$0.80. This reduction in Crown Point's share price resulted in the Company recognizing a capital loss on the Crown Point Shares of \$10,040. This amount has been recognized on the consolidated statement of comprehensive loss as a reduction in the fair value of financial assets. A capital distribution of \$17,657 has been recorded in deficit on the statement of changes in equity.

## Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

The combined results of the discontinued operations have been included in the consolidated statement of comprehensive loss. The comparative period income and cash flows from discontinued operations have been reclassified to include those operations classified as discontinued in the current year.

The year ended December 31, 2012 discontinued financial and operating results include only those results up to May 28, 2012 (the date of sale of the Argentina operations).

	December 31 2012
Discontinued operations	
Revenue, net of royalties	4,764
Direct production and operating expenditures	(1,906)
Depletion and depreciation	(147)
General and administrative expenses	(768)
Sale transaction costs	(1,886)
Exploration and evaluation expenditures	(26)
Other income	935
Export taxes	(88)
Write down of non-current assets	(568)
Finance income	88
Finance costs	(130)
Foreign exchange gain	47
Income from discontinued operations	315
	December 31
	2012
Cash flow from discontinued operations	
Net cash flow used in operating activities	(365)
Net cash flow used in investing activities	(1,121)
Net cash flow used in discontinued operations	(1,486)

Notes to Consolidated Financial Statements For the years ended December 31, 2013 and 2012 (Amounts in US\$ thousands)

## 26) Subsequent event

On February 7, 2014 the Company announced that it entered into an agreement to sell, subject to shareholder and regulatory approval, all of the issued and outstanding shares in the capital of ARNIL for \$53 million in cash, plus the assumption of certain liabilities and adjusted working capital, from which Antrim will settle on closing all outstanding obligations under its Payment and Oil Swap agreements. At December 31, 2013, amounts outstanding under the Company's Payment and Oil Swap arrangements are included in assets held for sale and discontinued operations. See note 1 Going Concern and note 4 Discontinued Operations for additional information.

#### DIRECTORS

Stephen Greer

President and Chief Executive Officer,

Antrim Energy Inc.

Colin Maclean (2) (3) (4) (5) Independent Director

Dr. Gerry Orbell (1) (3) (4) (5)

Chairman,

Antrim Energy Inc.

Erik Mielke

Independent Director

Jim Perry (1) (3) (4) (5)

President,

Alternative Fuel Systems business unit IMPCO Technologies Canada, Inc.

Jim Smith (1) (2) (5) Independent Director

Jay Zammit (2) (5)
Partner.

Burstall Winger LLP

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Reserves Committee
- (4) Member of the Exploration Committee
- (5) Member of the Corporate Governance Committee

### **OFFICERS**

Stephen Greer

President and Chief Executive Officer

Anthony Potter

Chief Financial Officer

Kerry Fulton

Vice President, Operations

Terry Lederhouse

Vice President, Commercial

Adrian Harvey

Corporate Secretary

#### STOCK EXCHANGE LISTINGS

Toronto Stock Exchange: Trading Symbol "AEN" London Stock Exchange (AIM): Trading Symbol "AEY"

#### **HEAD OFFICE**

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The Company's website is not incorporated by reference in and does not form a part of this report.

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#### INTERNATIONAL SUBSIDIARIES

Antrim Energy Ltd.

Antrim Exploration (Ireland) Limited Antrim Resources (N.I.) Limited

#### LEGAL COUNSEL

Burstall Winger LLP Calgary, Alberta

#### **BANKERS**

Toronto-Dominion Bank of Canada

### AUDITORS

PricewaterhouseCoopers LLP Calgary, Alberta

#### INDEPENDENT ENGINEERS

McDaniel & Associates Consultants Ltd.

#### REGISTRAR AND TRANSFER AGENT

Inquiries regarding change of address, registered shareholdings, stock transfers or lost certificates should be direct to:

CST Trust Company Calgary, Alberta inquiries@cantstockta.com