ANTRIM ENERGY INC. Q2 2013

# INTERIM FINANCIAL REPORT – SECOND QUARTER 2013

## HIGHLIGHTS:

- **Causeway production rates average gross 2,283 bbls/day (net 668 bbls/day) for second quarter of 2013 – gross 2,807 bbls/day (net 821 bbls/day) for first half of 2013**
- **Oil revenue in the first half of 2013 of $17.1 million and cash flow from operations of $7.8 million**
- **Sale of Tanzania option for $7.5 million in July 2013**
- **Ireland seismic program started in July 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 three and six month periods ended June 30, 2013 compared to the same periods ended June 30, 2012 and should be read in conjunction with the audited consolidated financial statements of Antrim for the year ended December 31, 2012. This MD&A has been prepared using information available up to August 13, 2013. The interim 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.

### 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 Operations**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| ($000's) | | | | |
| Cash flow used in operating activities | (9,015) | (240) | (2,646) | (10,555) |
| Less: changes in non-cash working capital | (10,164) | 2,937 | (10,407) | (5,776) |
| Cash flow from (used in) operations | 1,149 | (3,177) | 7,761 | (4,779) |

## Overview of Continuing Operations

### Causeway Licences

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

The Causeway Licences include the Causeway Field and the West Causeway area. Production from the Causeway Field averaged 2,283 gross barrels of oil per day ("bopd") (Antrim net 668 bopd) in the second quarter of 2013 compared to nil in 2012. During the quarter, production was interrupted for thirteen days due to a third party well coming on stream. Uninterrupted production averaged 2,645 bopd (Antrim net 773 bopd) during the quarter.

Production from the Causeway Field averaged 2,807 bopd in the first half of 2013 compared to nil in 2012, after production commenced in November 2012. During the first half of the year, production was interrupted for four weeks due to platform shutdowns and well tie-in operations related to another field.

Starting in late August 2013, the North Cormorant platform is expected to be shut down for a scheduled maintenance program. This shut-down is expected to interrupt production from the Causeway Field for approximately six weeks.

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. In the first half of 2013, the Company recognized oil revenue of $17.1 million.

Rig operations to complete the water injector for the Causeway Field were completed in February 2013. Anticipated startup of the downhole electrical submersible pump ("ESP") will follow completion of topside modifications on the North Cormorant production platform, and is scheduled for the fourth quarter of 2013. The water injection well is expected to commence operation in 2014.

As part of the sale of a 30% working interest in the Causeway Licences to Valiant Petroleum plc ("Valiant") in October 2011, Antrim entered into a Differential Lifting Agreement ("DLA") giving Valiant 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 Valiant. Once satisfied, Antrim's working interest in production will revert back to 35.5% from 29.25%.

Under the terms of the Fionn Field Supplementary Agreement signed with Valiant in January 2012, Antrim had an option for three months following first oil production from the Causeway Field to opt out of participating in the Fionn Field development and sell its 35.5% working interest share to Valiant for the cost of its 35.5% working share of the Fionn Field pre-investment costs, or to confirm its continued participation by repaying its share of the Fionn pre-investment costs plus interest.

In February 2013, Antrim announced that it had elected to opt out of participating in further development of the Fionn Field. Subject to all necessary approvals from the UK Department of Energy and Climate Change ("DECC"), Antrim will withdraw from the Fionn Field subarea and will not incur any further liabilities. The Company has also been released by the Operator of any further obligations with respect to decommissioning of well abandonment liabilities for two suspended wells in the Fionn Field subarea.

**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, with the potential to install a water injection scheme and/or additional production wells at a later date. Future drilling locations are being considered by the partners.

Production from the Cormorant East Field averaged 568 gross bopd in the second quarter of 2013 compared to nil in 2012. Production from the Cormorant East Field averaged 625 gross bopd in the first half of 2013 compared to nil in 2012. During the period, pressure problems experienced in the well have resulted in shut-ins and reduced production volumes. Further, production during the period was interrupted for nine days due to a shut down on the Cormorant Alpha platform.

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 are recovered from production revenue.

## Ireland

*Licensing Option 11/5 Blocks 44/4, 44/5 (part), 44/9, 44/10, 44/14, 44/15, Antrim 25%*

Antrim acquired the Licensing Option in the 2011 Atlantic Margin Licensing Round. The Licensing Option includes Blocks 44/4, 44/5 (part), 44/9, 44/10, 44/14 and 44/15, an area of 1,409 km2. Antrim has 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 (the "Skellig Block") 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"). The FEL 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 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 is expected to be completed by the end of September 2013.

## Tanzania

*Production Sharing Agreement - Pemba and Zanzibar*

In July 2013, the Company announced the sale of 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.

**Fyne Licence**
*P077 Block 21/28a – Fyne and Crinan, Antrim 100%*

In late March 2013 the Company announced that it would not proceed with development of the Fyne Field with an FPSO. Since that time, the Company signed a non-binding heads of agreement with Enegi Oil Plc ("Enegi") and Advanced Buoy Technology ("ABTechnology") to undertake engineering studies and preparation of a FDP using buoy technology. The Company and Enegi-ABTechnology intend to execute a binding joint development agreement, the terms of which will include that there will be no costs to the Company prior to FDP approval. Upon approval of the FDP by DECC, Enegi-ABTechnology will earn the right to acquire 50% working interest in the licence. The Company will remain Operator.

On July 2, 2013, the Company announced that DECC agreed to amend the terms of the Fyne Licence to allow for a revised Field Development Plan ("FDP") for the Fyne Field to be submitted no later than January 31, 2014. DECC's consent to this 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.

In July 2013, the Company relinquished, at DECC's request, the Crinan Prospective Area. The Crinan Prospective Area had been assigned proved plus probable reserves of 1.89 million barrels of oil (net to Antrim), as estimated by McDaniel & Associates Consultants Ltd. effective as of December 31, 2012. The costs associated with the Crinan Prospective area were written off in March 2012.

**Corporate**

In June 2013, the Company announced that it had taken steps to significantly reduce its ongoing G&A expenses, including a reduction of head office personnel costs by approximately 50%.

## Financial Discussion of Continuing Operations (unaudited)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Financial Results ($000's except per share amounts) | | | | |
| Cash flow from (used in) operations [1] | 1,149 | (3,177) | 7,761 | (4,779) |
| Cash flow from (used in) operations per share [1] | 0.01 | (0.02) | 0.04 | (0.03) |
| Net income (loss) – continuing operations | 930 | (6,373) | (1,923) | (62,464) |
| Net income (loss) | 930 | (6,572) | (1,923) | (61,993) |
| Net income (loss) per share – basic, continuing operations | 0.01 | (0.03) | (0.01) | (0.34) |
| Total assets | 115,274 | 145,617 | 115,274 | 145,617 |
| Working capital (deficiency) | (7,273) | 41,669 | (7,273) | 41,669 |
| Capital expenditures – continuing operations | 3,850 | 8,694 | 17,330 | 14,737 |
| | | | | |
| Common shares outstanding (000's) | | | | |
| End of period | 184,731 | 184,316 | 184,731 | 184,316 |
| Weighted average – basic | 184,731 | 184,269 | 184,731 | 184,192 |
| Weighted average – diluted | 184,731 | 185,307 | 184,999 | 185,463 |

(1) 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

The Company recorded revenue of $5.1 million in the second quarter of 2013 (2012 – nil) and $17.1 million in the first half of 2013 (2012 – nil). 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 $105.47 and $109.84 per barrel for the three and six month periods ended June 30, 2013 compared to $nil and $nil for the same periods in 2012, respectively. 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 three and six month periods ended June 30, 2013 and 2012.

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| (barrels) | 2013 | 2012 | 2013 | 2012 |
| Opening inventory (1) | 54,924 | - | 74,000 | - |
| Net production (2) | 60,755 | - | 148,586 | - |
| Net sales | (47,975) | - | (152,970) | - |
| Processing and shrinkage | (1,017) | - | (2,929) | - |
| Ending inventory (1) | 66,687 | - | 66,687 | - |

(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 2,283 bopd (Antrim net 667 bopd) in the second quarter of 2013, compared to nil production for the same period in 2012, with first production commencing in November 2012. Oil production decreased from average gross production of 3,336 bopd (Antrim net 976 bopd) in the first quarter of 2013 due to natural decline and a production interruption due to a third party well coming on stream.

## Netbacks

The following table provides a comparative analysis of field netbacks, based on sales, for the three and six month periods ended June 30, 2013 and 2012:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **$/bbl** | | | | |
| Sales price | 105.47 | - | 109.84 | - |
| Financial derivative | (3.55) | - | (3.20) | - |
| Direct production and operating expenses | (21.78) | - | (16.91) | - |
| Netback | 80.14 | - | 89.73 | - |

Direct production and operating expenses increased to $2.3 million (2012 - $nil) primarily due to the commencement of production from the Causeway Field. Direct production and operating expenses was $1.0 million for the three month period ended June 30, 2013 compared to $1.3 million for the three month period ended March 31, 2013. Direct production and operating expenses increased from $12.03 per barrel for the three month period ended March 31, 2013 to $21.78 per barrel for the three month period ended June 30, 2013, due primarily to adjustments relating to 2012 operating costs. Direct production and operating expenses consist of operator, production platform and export terminal costs.

## General and Administrative

General and administrative ("G&A") costs decreased to $2.4 million for the first six months of 2013 compared to $3.0 million for the same period in 2012. The decrease in G&A is primarily due to reduced employee compensation. In the six month period ended June 30, 2013, Antrim capitalized $0.3 million (2012 – $0.4 million) of G&A costs.

G&A costs decreased to $1.0 million for the three month period ended June 30, 2013 compared to $1.6 million for the same period in 2012. The decrease in G&A in primarily due to reduced employee compensation.

## Depletion and Depreciation

Depletion and depreciation expense was $9.7 million for the first six months of 2013 compared to $46 thousand for the same period in 2012 due to the recognition of depletion as a result of production from Causeway. The depletion and depreciation rate for the first six months of 2013 was $60.45 per barrel compared to $nil in 2012.

Depletion and depreciation expense was $2.6 million for the three months of 2013 compared to $22 thousand for 2012. The depletion and depreciation rate for the three month period ended June 30, 2013 was $53.70 per barrel compared to $nil in 2012.

## Exploration & Evaluation Expenditures

Exploration and evaluation ("E&E") expenditures increased to $1.9 million for the six months ended June 30, 2013 compared to $0.1 million for the same period in 2012. The increase in E&E expenditures is primarily related to work on the development plan for the Fyne Licence.

E&E expenditures increased to $0.2 million for the three months ended June 30, 2013 compared to $0.1 million for the same period in 2012.

## Financial Derivative

The following table summarizes the commodity hedge entered into during the period.

| Derivative | Term | Volume bbl | Fixed price $/bbl |
|---|---|---|---|
| Oil Swaps | February 2013 – December 2015 | 657,350 | $89.37 |

The Company recorded a $2.3 million and a $1.9 million gain on the financial derivative for the three and six month periods ended June 30, 2013 (2012 - $nil and $nil). The gain was predominantly due to a $2.4 million unrealized gain on the oil swap.

## Finance Costs

Finance costs were $4.2 million for the six month period ended June 30, 2013 compared to $0.1 million for the same period in 2012. The increase in finance costs is primarily related to interest expense of $2.7 million and non-recurring costs of $1.2 million relating to the debt financing.

Finance costs were $1.6 million for the three month period ended June 30, 2013 compared to $0.1 million for the same period in 2012. The increase in finance costs is primarily related to interest expense.

## 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 three and six month periods ended June 30, 2013 (2012 – nil).

The Company follows the liability method of accounting for income taxes. As at June 30, 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

In the six month period ended June 30, 2013, Antrim generated cash flow from operations of $7.8 million ($0.04 per share) compared to a cash deficiency from operations of $4.8 million ($0.03 per share) in the same period in 2012. Cash flow from operations increased due to the recognition of revenue from Causeway production.

In the three month period ended June 30, 2013, Antrim generated cash flow from operations of $1.1 million ($0.01 per share) compared to a cash deficiency from operations of $3.2 million ($0.02 per share) in the same period in 2012. Cash flow from operations increased due to the recognition of revenue from Causeway production. Cash flow decreased from the first quarter of 2013 due to lower production and the timing of oil deliveries.

In the first half of 2013, Antrim incurred a net loss from continuing operations of $1.9 million compared to a net loss from continuing operations of $62.5 million in 2012. The net loss decreased primarily due to the recognition of revenue from Causeway production, impairment costs recorded in 2012 and a reduction in 2012 in the fair value of financial assets partially offset by a gain on disposal of the Company’s Argentina operations.

In the second quarter of 2013, Antrim incurred net income from continuing operations of $0.9 million compared to a net loss from continuing operations of $6.4 million in 2012. Income increased due to the recognition of revenue from Causeway production and a reduction in 2012 in the fair value of financial assets partially offset by a gain on disposal of the Company’s Argentina operations.

## Capital Expenditures

Antrim incurred capital expenditures of $17.3 million and $14.7 million for the six month periods ended June 30, 2013 and 2012, respectively. Capital expenditures in 2013 primarily relate to ongoing development costs of the Causeway Licence of $17.0 million.

## Foreign Exchange and Comprehensive Income

The measurement currency of the Company is the Canadian dollar, while its reporting currency is the US dollar. 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 $0.1 million for the six month period ended June 30, 2013, compared to a loss of $0.3 million in the same period in 2012.

## 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 the performance of the producing wells, 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.

In January 2013, the Company entered into a $30 million payment swap transaction which is subject to a number of financial and operating covenants. In addition, funds received from the swap arrangement are subject to restrictions as to their use and subsequent to March 31, 2013 additional restrictions were imposed following lower than anticipated production volumes. To reduce the impact of these restrictions the Company has taken steps to reduce its ongoing general and administrative costs and in July 2013 sold its option to acquire up to a 30% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence for $7.5 million. The Company continues to work with the lender to reduce the impact of these restrictions, however, there is no certainty that restricted funds will be made available which may cast further doubt on the Company's ability to continue as a going concern. The restrictions may impact the Company's ability to fund capital expenditures.

If the lender does not reduce the restrictions the Company has other viable options such as issuing new equity and/or debt, selling and/or acquiring assets and controlling capital expenditure programs.

As at June 30, 2013, Antrim had a working capital deficiency of $7.3 million compared to a working capital deficiency of $10.7 million as at December 31, 2012.

Accounts payable and accrued liabilities were $8.0 million at June 30, 2013 primarily related to costs for the development of the Causeway Field, compared to $18.1 million as at December 31, 2012.

Although there have been improvements in the global economy and financial markets, restrictions on availability of credit remain and may limit Antrim's ability to access debt or equity financing for its exploration and development projects. Antrim forecasts cash flows against a range of macroeconomic and financing market scenarios in an effort to identify future commitments and arrange financing, if necessary.

Antrim's planned capital program for 2013 is primarily costs associated with the ongoing development of the Causeway Field and the Cormorant East Field.

**Contractual Obligations, Commitments and Contingencies**

Antrim has several commitments in respect of its petroleum and natural gas properties and operating leases as at June 30, 2013 as follows:

| ($000's) | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|
| **United Kingdom** | | | | | | |
| Causeway (1) | 1,220 | 4,704 | 26 | 29 | 31 | 31 |
| Cormorant East | 183 | 7 | 7 | 7 | 7 | 7 |
| Fyne and Crinan (2) | 33 | 33 | 33 | 33 | - | - |
| Cyclone-Typhoon (3) | - | 12 | - | - | - | - |
| Erne | - | 12 | - | - | - | - |
| **Office leases** | 134 | 357 | 370 | 370 | 349 | 9 |
| **Total** | 1,570 | 5,125 | 436 | 439 | 387 | 47 |

(1) Relates to Antrim's 35.5% interest in the Causeway Licences.

(2) 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.

(3) The Company has a $6.2 million contingent drilling commitment on this licence for the Typhoon prospect in 2014. Due to the results of the Cyclone well on the same licence, DECC has been asked to wave the remaining drilling obligation on this licence. Contingent on DECC acceptance, there are no remaining obligations for the initial term of the licence.

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 in the High Court of England and Wales for the additional invoice costs plus interest and lost management time. In August 2012, the Company filed a defence against this claim. The Company is disputing the additional costs 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.

## Subsequent events

On July 15, 2013, the Company announced the approval from DCENR for the conversion of the Licensing Option to a Frontier Exploration Licence ("FEL"). The FEL has a 15 year term, with an initial three-year term followed by three four-year terms.

On July 10, 2013, the Company announced the sale of 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. The costs associated with the Tanzania option were written off in 2008.

In July 2013, the Company relinquished, at DECC's request, the Crinan prospective area of the Fyne Licence.

## Outlook

Antrim expects to see increased production from the Causeway Field following deployment of the ESP in the second half of 2013. A water injection scheme is scheduled to commence operation in 2014.

Following the discovery of the Cormorant East Field by the Contender Well, Antrim anticipates at least one appraisal well, downdip of the discovery well and a plan to explore the adjacent fault compartments.

Recent seismic studies on the Skellig block in the Porcupine Basin offshore Southwest Ireland have high graded the Dunree Prospect. Antrim and Kosmos anticipate completing acquisition of 3D seismic data within the area by the end of 2013.

## Summary of Quarterly Results

| ($000, except per share amounts) | Oil, Natural Gas and NGL Revenue, Net of Royalties | Cash Flow from (used in) Operations | Net Income (Loss) | Net Income (Loss) Per Share – Basic |
|---|---|---|---|---|
| **2013** | | | | |
| Second quarter | 5,060 | 1,149 | 930 | 0.01 |
| First quarter | 11,991 | 6,613 | (2,853) | (0.02) |
| | 17,051 | 7,761 | (1,923) | (0.01) |
| **2012** | | | | |
| Fourth quarter | - | (8,138) | (67,155) | (0.37) |
| Third quarter | - | (472) | (5,240) | (0.03) |
| Second quarter [1] | - | (3,177) | (6,373) | (0.03) |
| First quarter [1] | - | (1,601) | (56,091) | (0.30) |
| | - | (13,388) | (134,859) | (0.73) |
| **2011** | | | | |
| Fourth quarter [1] | - | (833) | (15,362) | (0.10) |
| Third quarter [1] | - | (894) | (36,800) | (0.20) |
| Second quarter [1] | - | (1,215) | (1,503) | (0.01) |
| First quarter [1] | - | (805) | (1,445) | (0.01) |
| | - | (3,747) | (55,110) | (0.32) |

1. Quarterly results reflect continuing operations only

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

- 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;
- In the fourth quarter of 2011, the Company recognized an impairment charge of $10.3 million related to the Erne discovery well 21/29d-11 and Erne sidetrack well 21/29d-11Z;
- During the third quarter of 2011, the Company recognized an impairment charge of $35.6 million due to the sale of the 30% interest in the Causeway Licences.

## 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, 2012. 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 during the first six months of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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.

<u>Substantial Capital Requirements</u>

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. The Company's anticipated revenue for 2013, 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."

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 26, 2013 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 forward-looking 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, 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 swap and the forward sale of 657,350 barrels 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 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 swap and Brent oil commodity 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, 2012. 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 www.sedar.com. 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.

# Antrim Energy Inc.
## Consolidated Balance Sheet
## As at June 30, 2013 (unaudited)
## (Amounts in US$ thousands)

| | Note | June 30 2013 | December 31 2012 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,607 | 1,503 |
| Restricted cash | 3 | 9,163 | 808 |
| Accounts receivable | | 174 | 332 |
| Inventory and prepaid expenses | 4 | 4,787 | 5,877 |
| | | 15,731 | 8,520 |
| **Property, plant and equipment** | 5 | 91,784 | 81,069 |
| **Exploration and evaluation assets** | 6 | 7,759 | 6,931 |
| | | 115,274 | 96,520 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | 8,020 | 18,165 |
| Current portion of long-term debt | 7 | 11,225 | - |
| Current portion of financial derivative | 14 | 2,798 | - |
| Deferred revenue | | 961 | 1,089 |
| | | 23,004 | 19,254 |
| **Long-term debt** | 7 | 13,096 | - |
| **Financial derivative** | 14 | 815 | - |
| **Decommissioning obligations** | 8 | 12,900 | 10,270 |
| | | 49,815 | 29,524 |
| **Going concern** | 1 | | |
| **Commitments and contingencies** | 13 | | |
| **Subsequent event** | 15 | | |
| **Shareholders' equity** | | | |
| **Share capital** | | 361,922 | 361,922 |
| **Contributed surplus** | | 21,316 | 20,626 |
| **Accumulated other comprehensive income** | | 4,352 | 4,656 |
| **Deficit** | | (322,131) | (320,208) |
| | | 65,459 | 66,996 |
| | | 115,274 | 96,520 |

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

# Antrim Energy Inc.
## Consolidated Statement of Comprehensive Income (Loss)
## For the three and six months ended June 30, 2013 and 2012 (unaudited)
## (Amounts in US$ thousands, except per share data)

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | **Note** | **2013** | **2012** | **2013** | **2012** |
| **Revenue** | | 5,060 | - | 17,051 | - |
| **Expenses** | | | | | |
| Direct production and operating expenditures | | 1,044 | - | 2,308 | - |
| General and administrative expenses | | 986 | 1,554 | 2,379 | 3,025 |
| Depletion and depreciation | 5 | 2,600 | 22 | 9,679 | 46 |
| Share-based compensation | 9 | 281 | 71 | 530 | 183 |
| Exploration and evaluation | | 160 | 127 | 1,934 | 127 |
| Impairment | | - | - | - | 54,700 |
| Reduction in the fair value of financial assets | | - | 10,040 | - | 10,040 |
| Gain on disposal of Argentina assets | | - | (5,894) | - | (5,894) |
| Finance income | | - | (123) | (2) | (208) |
| Finance costs | 11 | 1,617 | 90 | 4,189 | 142 |
| Gain on financial derivative | 14 | (2,311) | - | (1,932) | - |
| Foreign exchange (gain) loss | | (247) | 486 | (111) | 303 |
| **Income (loss) from continuing operations before income taxes** | | 930 | (6,373) | (1,923) | (62,464) |
| Income tax expense | | - | - | - | - |
| **Income (loss) from continuing operations after income taxes** | | 930 | (6,373) | (1,923) | (62,464) |
| **Income (loss) from discontinued operations** | | - | (199) | - | 471 |
| **Net income (loss) for the period** | | 930 | (6,572) | (1,923) | (61,993) |
| **Other comprehensive income (loss)** | | | | | |
| *Items that may be subsequently reclassified to profit or loss:* | | | | | |
| Foreign currency translation adjustment | | (229) | (3,284) | (304) | 2,065 |
| *Items reclassified to profit or loss:* | | | | | |
| Foreign currency translation adjustment – disposal | | - | 3,213 | - | 3,213 |
| **Other comprehensive income (loss) for the period** | | (229) | (71) | (304) | 5,278 |
| **Comprehensive income (loss) for the period** | | 701 | (6,643) | (2,227) | (56,715) |
| **Net income (loss) per common share** | | | | | |
| Basic & diluted – continuing operations | 10 | 0.01 | (0.03) | (0.01) | (0.34) |
| Basic & diluted – discontinued operations | 10 | - | (0.00) | - | 0.00 |

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

# Antrim Energy Inc.
## Consolidated Statement of Cash Flows
## For the three and six months ended June 30, 2013 and 2012 (unaudited)
## (Amounts in US$ thousands)

| | | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | Note | 2013 | 2012 | 2013 | 2012 |
| **Operating Activities** | | | | | |
| Income (loss) from continuing operations after income taxes | | 930 | (6,373) | (1,923) | (62,464) |
| Items not involving cash: | | | | | |
| Depletion and depreciation | 5 | 2,600 | 22 | 9,679 | 46 |
| Share-based compensation | 9 | 281 | 71 | 530 | 183 |
| Interest from long-term debt facility | 7 | 1,279 | - | 2,640 | - |
| Accretion of decommissioning obligations | 8 | 51 | 39 | 97 | 74 |
| Amortization of transaction costs | 7 | 237 | - | 237 | - |
| Change in financial derivative | 14 | (2,481) | - | (2,402) | - |
| Foreign exchange loss (gain) | | (1,748) | (1,082) | (1,097) | (1,464) |
| Impairment | | - | - | - | 54,700 |
| Reduction in the fair value of financial assets | | - | 10,040 | - | 10,040 |
| Gain on disposal of Argentina assets | | - | (5,894) | - | (5,894) |
| Changes in non-cash working capital items – continuing operations | 12 | (10,164) | 2,937 | (10,407) | (5,776) |
| Cash provided by (used in) operating activities – continuing operations | | (9,015) | (240) | (2,646) | (10,555) |
| Cash provided by operating activities – discontinued operations | | - | (1,441) | - | (209) |
| **Cash used in operating activities** | | (9,015) | (1,681) | (2,646) | (10,764) |
| **Financing Activities** | | | | | |
| Issue of common shares | | - | 70 | - | 70 |
| Proceeds from long-term debt facility | 7 | - | - | 30,000 | - |
| Issuance costs on long-term debt facility | | - | - | (1,423) | - |
| **Cash provided by financing activities** | | - | 70 | 28,577 | 70 |
| **Investing Activities** | | | | | |
| Capital expenditures | | (3,850) | (8,694) | (17,330) | (14,737) |
| Change in restricted cash | | 13,475 | 5,611 | (8,355) | 17,249 |
| Cash proceeds from the disposal of Argentina assets | | - | 9,976 | - | 9,976 |
| Cash (used in) provided by investing activities – continuing operations | | 9,625 | 6,893 | (25,685) | 12,488 |
| Cash used in investing activities – discontinued operations | | - | (453) | - | (1,121) |
| **Cash (used in) provided by investing activities** | | 9,625 | 6,440 | (25,685) | 11,367 |
| Effects of foreign exchange on cash and cash equivalents | | (26) | (954) | (142) | (204) |
| **Net increase in cash and cash equivalents** | | 584 | 3,875 | 104 | 469 |
| **Cash and cash equivalents – beginning of period** | | 1,023 | 43,699 | 1,503 | 47,105 |
| **Cash and cash equivalents – end of period** | 12 | 1,607 | 47,574 | 1,607 | 47,574 |

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

# Antrim Energy Inc.

## Consolidated Statement of Changes in Equity
## For the three and six months ended June 30, 2013 and 2012 (unaudited)
## (Amounts in US$ thousands)

| | Note | Number of common shares | Share capital | Contributed surplus | Accumulated other comprehensive income | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2011** | | **184,116,078** | **361,587** | **19,579** | **(5,971)** | **(168,007)** | **207,188** |
| Net loss for the period | | - | - | - | - | (61,993) | (61,993) |
| Capital distribution | | - | - | - | - | (17,657) | (17,657) |
| Other comprehensive income | | - | - | - | 5,278 | - | 5,278 |
| Share-based compensation | 9 | - | - | 257 | - | - | 257 |
| Stock options exercised | | 200,000 | 125 | (55) | - | - | 70 |
| **Balance, June 30, 2012** | | **184,316,078** | **361,712** | **19,781** | **(693)** | **(247,657)** | **133,143** |
| | | | | | | | |
| **Balance, December 31, 2012** | | **184,731,076** | **361,922** | **20,626** | **4,656** | **(320,208)** | **66,996** |
| Net loss for the period | | - | - | - | - | (1,923) | (1,923) |
| Other comprehensive loss | | - | - | - | (304) | ` | (304) |
| Share-based compensation | 9 | - | - | 690 | - | - | 690 |
| **Balance, June 30, 2013** | | **184,731,076** | **361,922** | 21,316 | 4,352 | (322,131) | 65,459 |

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

## 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 ("UK") 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 – 7th Avenue S.W, Calgary, Alberta, Canada.

### Going Concern

These 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.

The Company has a working capital deficiency of $7,273 as at June 30, 2013. The Company has incurred significant losses in prior fiscal periods and has an accumulated deficit of $322,131. Further, the Company has commitments and contingencies of $1,570 and $5,125 in 2013 and 2014, respectively.

There are a number of material uncertainties that raise significant doubts as to the Company's ability to continue as a going concern, including the performance of the producing wells, oil prices, ability to finish the planned development program within budget, ability to secure additional financing, relinquishment of commitments on certain licences and settlement of contingencies.

In January 2013, the Company entered into a $30 million payment swap transaction which is subject to a number of financial and operating covenants. In addition, funds received from the swap arrangement are subject to restrictions as to their use and subsequent to March 31, 2013 additional restrictions were imposed following lower than anticipated production volumes. To reduce the impact of these restrictions the Company has taken steps to reduce its ongoing general and administrative costs, and in July 2013 sold its option to acquire up to a 30% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence for $7.5 million (see note 15). The Company continues to work with the lender to reduce the impact of these restrictions, however, there is no certainty that restricted funds will be made available which may cast further doubt on the Company's ability to continue as a going concern.

If the lender does not reduce the restrictions the Company will have to explore other viable options such as issuing new equity and/or debt, selling assets and controlling capital expenditure programs.

These financial statements do not reflect adjustments to the carrying values of assets and liabilities and the reported revenues, expenses and balance sheet classifications that would be necessary if the Company was unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## 2) Basis of presentation

### a) Statement of compliance

These interim consolidated financial statements for the three and six months ended June 30, 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2012, except as discussed in note 2(d). The interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), 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 has reduced its ownership in its UK subsidiary.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at August 13, 2013, the date the Board of Directors approved the interim consolidated financial statements.

### b) Presentation currency

In these interim consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in US dollars. Antrim's functional currency is Canadian dollars; however, 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

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment regarding assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Significant estimates and judgments used in the preparation of the financial statements are described in the Company's consolidated annual financial statements for the year ended December 31, 2012. For these interim consolidated financial statements for the three and six months ended June 30, 2013 management also applied the following significant estimate and judgement.

**(Amounts in US$ thousands, except as otherwise noted)**

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.

### d) Change in accounting policies

In May 2011, the International Accounting Standards Board ("IASB") issued the following standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurements ("IFRS 13") and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013. There has been no material impact from the adoption of the new and amended standards on the Company's financial statements.

## 3) Restricted cash

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Amount for permitted encumbrances | 3,426 | - |
| Capital reserve account | 3,701 | - |
| Debt service reserve account | 1,275 | - |
| Operating costs standby letter of credit | 761 | 808 |
| Restricted cash | 9,163 | 808 |

Cash of $3,426 (2012 - $nil) is restricted for permitted items and for corporate and other project costs as approved by the counterparty to the payment swap transaction (see Note 1).

Cash of $3,701 (2012 - $nil) is restricted in use for the Company's development program and $1,275 (2012 - $nil) is restricted for future debt payments.

Restricted cash of $761 at June 30, 2013 (December 31, 2012 - $808) relates to a British pounds sterling standby letter of credit issued to the Sullom Voe terminal.

## 4) Inventory and prepaid expenses

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Crude oil inventory | 3,332 | 4,498 |
| Prepaids | 1,455 | 1,379 |
| | 4,787 | 5,877 |

Inventory with a carrying amount of $3,332 (December 31, 2012 – $4,498) represents linefill and oil stocks available for sale as at June 30, 2013. Included within this balance is depletion of $1,958 (December 31, 2012 - $3,372).

**(Amounts in US$ thousands, except as otherwise noted)**

## 5) Property, plant and equipment

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Opening balance | 81,069 | 15,207 |
| Additions | 17,043 | 58,250 |
| Depletion and depreciation | (8,265) | (3,466) |
| Changes in decommissioning estimate | 2,050 | 158 |
| Transferred from exploration and evaluation assets | - | 9,347 |
| Foreign currency translation | (113) | 1,573 |
| Closing balance | 91,784 | 81,069 |

During the period, the Company capitalized $107 (2012 - $21) of general and administrative costs and $97 (2012 - $6) of share-based compensation related to development activity.

## 6) Exploration and evaluation assets

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Opening balance | 6,931 | 122,431 |
| Additions | 1,206 | 9,219 |
| Changes in decommissioning estimate | (285) | 1,850 |
| Impairment | - | (122,698) |
| Transferred to property, plant and equipment | - | (9,347) |
| Foreign currency translation | (93) | 5,476 |
| Closing balance | 7,759 | 6,931 |

During the period, the Company capitalized $142 (2012 - $381) of general and administrative costs and $63 (2012 - $68) of share-based compensation related to exploration and evaluation activity.

**(Amounts in US$ thousands, except as otherwise noted)**

## 7) Long-term debt

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Opening balance | - | - |
| Additions | 21,444 | - |
| Interest on long-term debt | 2,640 | - |
| Amortization of transaction costs | 237 | - |
| Closing balance | 24,321 | - |
| | | |
| Current portion of long-term debt | 11,225 | - |
| Long-term debt | 13,096 | - |
| Closing balance | 24,321 | - |

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 a fixed price of $89.37 covering the period from February 2013 to December 2015 (see Note 14). 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 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. Failure to meet the terms of one or more of these covenants may constitute an event of default in the agreement, potentially resulting in accelerated repayment of the debt obligations. Security provided against the loan is in the form of intercompany guarantees and a floating charge over the Company's UK assets.

(Amounts in US$ thousands, except as otherwise noted)

## 8) Decommissioning obligations

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Opening balance | 10,270 | 3,595 |
| Additions | 759 | 4,259 |
| Accretion | 97 | 145 |
| Change in estimate | 1,765 | 3,370 |
| Dispositions | - | (1,362) |
| Foreign currency translation | 9 | 263 |
| Closing balance | 12,900 | 10,270 |

At June 30, 2013, the estimated undiscounted asset retirement obligations are $14,042 (December 31, 2012 - $11,218). The Company expects the undiscounted obligations to be payable between 2016 and 2020. The present value of the asset retirement obligations has been calculated using a risk-free interest rate of 1.5% (December 31, 2012 – 1.6%) and an inflation rate of 2.0% (December 31, 2012 – 2.0%).

## 9) 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.

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | # of Options | Weighted average exercise price Cdn $ | # of Options | Weighted average exercise price Cdn $ |
| Outstanding at January 1 | 12,350,065 | 0.98 | 9,168,063 | 2.08 |
| Granted | 500,000 | 0.20 | - | - |
| Exercised | - | - | (200,000) | 0.31 |
| Forfeited | (1,431,666) | 0.98 | (391,662) | 1.01 |
| Expired | (925,000) | 3.87 | (1,273,000) | 4.11 |
| Outstanding at June 30 | 10,493,399 | 0.69 | 7,303,401 | 1.84 |

Share-based compensation for the six months ended June 30, 2013 was $690 (2012 – $257) of which $530 (2012 – $183) was expensed and $160 (2012 – $74) was capitalized.

**(Amounts in US$ thousands, except as otherwise noted)**

## 10) Earnings per share

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Income (loss) from continuing operations | 930 | (6,373) | (1,923) | (62,464) |
| Income (loss) from discontinued operations | - | (199) | - | 471 |
| Net income (loss) for the period | 930 | (6,572) | (1,923) | (61,993) |
| **Basic earnings per share was calculated as follows:** | | | | |
| Weighted average number of common shares: | | | | |
| Issued common shares | 184,731,076 | 184,116,078 | 184,731,076 | 184,116,078 |
| Effect of share options exercised | - | 152,462 | - | 76,231 |
| Weighted average number of common shares – basic | 184,731,076 | 184,268,540 | 184,731,076 | 184,192,309 |
| **Diluted earnings per share was calculated as follows:** | | | | |
| Weighted average number of common shares: | | | | |
| Weighted average number of common shares – basic | 184,731,076 | 184,268,540 | 184,731,076 | 184,192,309 |
| Effect of outstanding options | - | 1,038,611 | 267,526 | 1,271,052 |
| Weighted average number of common shares – diluted | 184,731,076 | 185,307,151 | 184,998,602 | 185,463,361 |
| **Basic & diluted earnings (loss) per common share** | | | | |
| From continuing operations | 0.01 | (0.03) | (0.01) | (0.34) |
| From discontinued operations | - | (0.00) | - | 0.00 |
| Total basic & diluted loss per share | 0.01 | (0.03) | (0.01) | (0.34) |

Under the current stock option plan, options can be exchanged for common shares of the Company. As a result, they are considered potentially dilutive and are included in the calculation of diluted net earnings per share. Diluted per share amounts are not calculated when there is a net loss. The average market value of the Company's shares for the purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding.

## 11) Finance costs

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| Debt financing | - | - | 1,160 | - |
| Interest expense | 1,329 | 45 | 2,690 | 50 |
| Amortization of transaction costs | 237 | - | 237 | - |
| Accretion of decommissioning obligation | 51 | 39 | 97 | 74 |
| Bank charges | - | 6 | 5 | 18 |
| | 1,617 | 90 | 4,189 | 142 |

**(Amounts in US$ thousands, except as otherwise noted)**

## 12) Supplemental cash flow information

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| (Increase) / decrease of assets: | | | | |
| Trade and other receivables | 158 | 381 | 158 | 4,472 |
| Inventory and prepaid expenses | (854) | (389) | (617) | (657) |
| Increase / (decrease) of liabilities: | | | | |
| Trade and other payables | (9,468) | 2,945 | (9,948) | (9,591) |
| | (10,164) | 2,937 | (10,407) | (5,776) |

| **Cash and cash equivalents are comprised of:** | | | | |
|---|---|---|---|---|
| Cash in bank | 1,607 | 11,626 | 1,607 | 11,626 |
| Short-term deposits | - | 35,948 | - | 35,948 |
| | 1,607 | 47,574 | 1,607 | 47,574 |

## 13) Commitments and contingencies

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

| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter |
|---|---|---|---|---|---|---|
| **United Kingdom** | | | | | | |
| Causeway (1) | 1,220 | 4,704 | 26 | 29 | 31 | 31 |
| Cormorant East | 183 | 7 | 7 | 7 | 7 | 7 |
| Fyne and Crinan (2) | 33 | 33 | 33 | 33 | - | - |
| Cyclone-Typhoon (3) | - | 12 | - | - | - | - |
| Erne | - | 12 | - | - | - | - |
| **Office leases** | 134 | 357 | 370 | 370 | 349 | 9 |
| **Total** | 1,570 | 5,125 | 436 | 439 | 387 | 47 |

(1) Relates to Antrim's 35.5% interest in the Causeway Licences.

(2) 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.

(3) The Company has a $6.2 million contingent drilling commitment on this licence for the Typhoon prospect in 2014. Due to the results of the Cyclone well, DECC has been asked to wave the remaining drilling obligation on this licence. Contingent on DECC acceptance, there are no remaining obligations for the initial term of the licence.

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 in the High Court of England and Wales for the additional invoice costs plus interest and lost management time. In August 2012, the Company filed a defence against this claim. The Company is disputing the additional costs 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.

## 14) 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-for-trading, 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, accounts payable and accrued liabilities, financial derivatives and long-term debt. Cash and cash equivalents, restricted cash, and accounts receivable are classified as loans and receivables and are accounted for at amortized cost. Accounts payable and accrued liabilities are classified as other liabilities and are accounted for at amortized cost. Except for the long-term debt described in Note 7, the fair values of these financial instruments approximate their carrying amounts due to the short-term maturity of the instruments and the mark to market value recorded for the financial instrument.

### 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 purchaser grade credit rating as established by independent credit rating agencies.

(Amounts in US$ thousands, except as otherwise noted)

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. As at June 30, 2013, the Company has provided for an allowance for doubtful accounts of $nil (December 31, 2012 - $nil).

(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.

In January 2013, the Company entered into a $30 million payment swap transaction which is subject to a number of financial and operating covenants. In addition, funds received from the swap arrangement are subject to restrictions as to their use and subsequent to March 31, 2013 additional restrictions were imposed, following lower than anticipated production volumes during the quarter. To reduce the impact of these restrictions the Company has taken steps to reduce its ongoing general and administrative costs, and in July 2013 sold its option to acquire up to a 30% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence for $7.5 million (see note 15). The Company continues to work with the lender to reduce the impact of these additional restrictions, however, there is no certainty that restricted funds will be made available which may cast doubt on the Company's ability to continue as a going concern.

At June 30, 2013, the Company had a working capital deficiency of $7,273 compared to a working capital deficiency of $10,734 at December 31, 2012.

The following table shows the timing of cash outflows relating to accounts payable and accrued liabilities and long-term debt as at June 30, 2013.

| | **Within 1 year** | **1 to 5 years** |
|---|---|---|
| Accounts payable and accrued liabilities | 8,020 | - |
| Long-term debt | 11,225 | 13,096 |

(c) Market risk

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

(Amounts in US$ thousands, except as otherwise noted)

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 June 30, 2013, the Company had the following financial derivative contract:

| Derivative | Term | Undelivered Volumes Bbl | Fixed price $/bbl | Fair value $ |
|---|---|---|---|---|
| Oil Swaps | July 2013 – December 2015 | 573,350 | $89.37 | 3,613 |

For the period ended June 30, 2013 the financial derivative movements were:

| | June 30 2013 | December 31 2012 |
|---|---|---|
| Opening balance | - | - |
| Additions | 7,133 | - |
| Settlements | (1,118) | - |
| Unrealized gain on financial derivative | (2,402) | - |
| Closing balance | 3,613 | - |

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 and British pounds sterling ("£"). As a result, fluctuations in the United States dollar and British pounds sterling against the Canadian dollar 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 Canadian 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 June 30, 2013 consisted of cash and cash equivalents and shareholders' equity. Shareholders' equity includes shareholders' capital, contributed surplus, and accumulated other comprehensive loss and deficit.

Current restrictions on availability of credit may limit the Company's ability to access debt or equity financing for its development projects. 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. The Company projects its future expenditures on a quarterly and, where applicable, monthly basis to enable the Company to better adapt to changing market conditions. 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 maintains flexibility to manage financial commitments on these assets.

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.

### 15) Subsequent event

On July 10, 2013, the Company announced the sale of 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. The costs associated with the Tanzania option were written off in 2008.

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Independent Director

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*(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*

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Terry Lederhouse
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