



**ANTRIM  
ENERGY INC.**

**Q2** 2010

## **INTERIM FINANCIAL REPORT – SECOND QUARTER 2010**

Three and Six Months Ended June 30, 2010

All financial figures are unaudited and in US dollars unless otherwise noted

### **HIGHLIGHTS:**

- **Four new gas wells in Argentina drilled and cased – bringing total to six in 2010**
- **Average gas price in Argentina increased 20% to \$1.87 per mcf over Q2 2009**
- **Financial flexibility with strong cash position of US\$ 26.4 million, positive cash flow and no bank debt**

In the first half of 2010, average production in Argentina increased to 1,787 barrels of oil equivalent per day (“boepd”) compared to 1,677 boepd in the first half of 2009. Oil and gas revenue increased to \$5.8 million for the six months ended June 30, 2010 compared to \$5.3 million for the same period in 2009. Higher gas sales volumes and higher product prices were offset by lower oil sales volumes due to the sale of the Puesto Guardian Field in early 2010.

Antrim generated cash flow from operations of \$0.4 million for the six months ended June 30, 2010 compared to a cash flow from operations deficiency of \$0.4 million in 2009. Cash flow increased due to higher revenue, higher interest and other income, and lower operating costs offset by higher general and administrative costs.

The Company’s primary focus during the second quarter has been the engineering design work associated with bringing the UK Fyne Field to production. Antrim is moving forward with several potential industry partners to accelerate the development of Fyne.

Antrim’s average gas price for the second quarter of 2010 was \$1.87 per mcf compared to \$1.56 for the same period in 2009, a 20% increase. For the second quarter, oil prices averaged \$47.38 per barrel compared to \$37.57 per barrel for the same period in 2009, a 36% increase. Subsequent to the quarter-end, oil prices continued to rise with the July 2010 oil shipment sold for \$49.70 per barrel.

The Company expanded its drilling program in Argentina from eight to ten wells targeting liquid-rich gas bearing reservoirs in Tierra del Fuego. Of these ten wells, one well is presently being drilled, six were cased as gas wells, two wells were plugged and abandoned and one well is scheduled to be drilled prior to the end of the third quarter. Five of the six cased wells have been completed with initial flow test rates of between 1.5 and 14 million cubic feet per day and are being tied into area infrastructure. One well remains to be completed.

### Financial and Operating Results (unaudited)

|  | Three Months Ended |         | Six Months Ended |         |
|--|--------------------|---------|------------------|---------|
|  | June 30            |         | June 30          |         |
|  | 2010               | 2009    | 2010             | 2009    |
| <u>Financial Results (\$000's except per share amounts)</u>      |                    |         |                  |         |
| Revenue  | 2,715              | 2,120   | 5,831            | 5,345   |
| Cash flow from operations (deficiency) <sup>(1)</sup>            | 236                | (716)   | 402              | (433)   |
| Cash flow from operations per share <sup>(1)</sup>               | 0.00               | (0.01)  | 0.00             | 0.00    |
| Net (loss)   | (2,020)            | (2,888) | (4,131)          | (4,738) |
| Net (loss) per share – basic                                     | (0.02)             | (0.03)  | (0.03)           | (0.04)  |
| Total assets   | 281,032            | 274,360 | 281,032          | 274,360 |
| Working capital  | 27,821             | 32,318  | 27,821           | 32,318  |
| Expenditures on petroleum and natural gas properties             | 2,448              | 1,811   | 3,438            | 4,279   |
| Bank debt  | -                  | -       | -                | -       |
| <u>Common shares Outstanding (000's)</u>                         |                    |         |                  |         |
| End of period  | 135,370            | 135,281 | 135,370          | 135,281 |
| Weighted average – basic   | 135,357            | 135,281 | 135,355          | 135,281 |
| Weighted average – diluted                                       | 135,357            | 135,281 | 135,355          | 135,281 |
| <u>Production</u>  |                    |         |                  |         |
| Oil, natural gas and NGL production (boe per day) <sup>(2)</sup> | 1,739              | 1,764   | 1,787            | 1,677   |

<sup>(1)</sup> Cash flow from operations (deficiency) and cash flow from operations per share are Non-GAAP Measures. Refer to “Non-GAAP Measures” in Management’s Discussion and Analysis.

<sup>(2)</sup> The 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.

## **OVERVIEW OF OPERATIONS**

### **United Kingdom**

#### **Fyne Field**

With the conditional divestiture of an interest in Causeway announced in March 2010, Antrim's primary focus is on the development of its core UK asset, the Fyne Area, located in the central North Sea in block 21/28a. In addition to the 17.5 million barrels (net) of proved plus probable reserves in the Fyne licence, Antrim holds 100% interest in three adjacent licences (total of four blocks) comprising the Greater Fyne Area. Antrim's strategy in this core area is to accelerate its development by working closely with industry partners. In this regard, Antrim is in discussions with several potential partners to sell a portion of its high working interest which could provide Antrim with funding to place the Fyne Field on production.

Antrim has progressed discussions with floating production storage and offloading ("FPSO") providers as well as local existing infrastructure owners to select the most efficient production export route for the Fyne Field. An FPSO pre-qualification process has been conducted and engineering studies performed, allowing for the identification of an alternative subsea tieback scheme to nearby third party infrastructure. The production system is being engineered to handle up to 20,000 barrels of oil per day ("bopd") directly from the Fyne Field, with potential capacity add-ons to handle additional volume from the satellite fields.

Antrim intends to select the optimum Fyne development scheme and prepare a Field Development Plan ("FDP") for submission. In addition to the Fyne development, Antrim has identified five high priority drilling prospects on its surrounding licences (the 'Greater Fyne Area', Antrim 100%). Antrim expects to submit the Fyne FDP and schedule drilling of these wells upon completion of a transaction with an industry partner for the Fyne development.

#### **26<sup>th</sup> UK Offshore Licensing Round**

In April 2010, Antrim participated in the 26<sup>th</sup> UK licensing round with the aim of building on the success already established in the Greater Fyne Area. The results of our bids are expected in the second half of 2010.

#### **Causeway Field**

Antrim signed a Conditional Letter Agreement with Valiant Petroleum plc ("Valiant") to sell a 30% interest in Causeway in March 2010. In return, Antrim will receive up to \$21.75 million carried contribution to the development costs of bringing the field to production startup. Completion of the transaction is subject to several conditions, including sanction of the FDP by the UK Department of Energy and Climate Change ("DECC"). As part of the transaction, Antrim will transfer related tax losses and has transferred operatorship of the field to Valiant. Following completion of the transaction, Antrim will retain a 35.5% working interest in the Causeway Field.

Valiant, as the new operator, has reaffirmed plans to finalize a revised FDP with respect to the development of the Causeway Field for submission to DECC in 2010 with first production expected in late 2011.

## **Argentina**

Antrim's interest in Argentina is now focused on its core assets in Tierra del Fuego (Antrim 25.78%). The drilling program in Tierra del Fuego was increased in May 2010 from eight to ten wells and is designed to increase gas and NGL production from the Los Flamencos gas field. Of these ten wells, one well is presently being drilled, six were cased as gas wells, two wells were plugged and abandoned and one well is scheduled to be drilled prior to the end of the third quarter. Five of the six cased wells have been completed with initial flow test rates of between 1.5 and 14 million cubic feet per day and are being tied into area infrastructure. One well remains to be completed.

Antrim's average gas price for the second quarter of 2010 was \$1.87 per mcf compared to \$1.56 for the same period in 2009, a 20% increase. For the second quarter, oil prices averaged \$47.38 per barrel compared to \$37.57 per barrel for the same period in 2009, a 26% increase.

Antrim sells all of its oil production and approximately 70% of its natural gas production from Tierra del Fuego to the Argentine mainland. These sales generate value-added tax ("VAT") of 21% which is retained by Antrim due to favourable tax laws pertaining to Tierra del Fuego. VAT of \$0.9 million (2009 - \$0.7 million) is reported as interest and other income and is not included in Antrim's per unit sales prices.

Antrim's field netbacks in Argentina, based on sales, were \$8.33 (2009 - \$3.13) per barrel of oil equivalent ("boe") and \$8.09 (2009 - \$5.24) per boe for the three and a six month periods ended June 30, 2010. The increase in the 2010 field netbacks, as compared to 2009, was due to the lower operating costs and higher sales prices partially offset by higher royalty expenses. Average per boe wellhead prices were impacted due to higher proportions of gas to oil sales in 2010.

The Company applied for "Gas Plus" pricing incentives for new gas that will be produced from the wells being drilled in 2010. If approved by the federal authorities, this will permit Antrim to sell its gas in the higher-priced industrial market on the mainland.

In February 2010, Antrim sold its non-operated 40% working interest in Puesto Guardian effective January 1, 2010, for consideration in the form of a \$1.4 million non-interest bearing promissory note. The Puesto Guardian Field was reaching the end of its economic life and the purchaser retained responsibility of all abandonment and environmental remediation work on the concession.

Effective February 25, 2010, Antrim relinquished its non-operated 70% working interest in Medianera and its non-operated 70% working interest in Tres Nidos Sur. Medianera production, as previously reported, was shut-in in February 2009. Well abandonment and seismic and drilling obligations on the properties were assumed by the operator of both concessions.

Antrim's Argentine operations are self-sustaining thereby enabling the Company to evaluate other opportunities in Argentina.

## **Colombia**

Antrim participated in the recent Colombia 2010 Open Round. The Company bid on one block and was not successful with its bid. Antrim continues to evaluate potential opportunities in Colombia as part of its bilateral strategy described in the outlook section of the MD&A.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following MD&A provides a detailed explanation of Antrim's operating results for the three and six months ended June 30, 2010 compared to the same periods ended June 30, 2009 and should be read in conjunction with the interim consolidated financial statements of Antrim. This MD&A has been prepared using information available up to August 11, 2010.

### Non-GAAP Measures

Cash flow from operations, cash flow from operations per share and netback do not have standard meanings under generally accepted accounting principles ("GAAP") and may not be comparable to those reported by other companies. Antrim utilizes cash flow from operations and net back 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 as used in the calculation of diluted earnings per share. Reconciliation of cash flow from operations to its nearest measure prescribed by GAAP is provided below.

### Calculation of Cash Flow from Operations

|   | Three Months Ended<br>June 30 |           | Six Months Ended<br>June 30 |             |
|---|-------------------------------|-----------|-----------------------------|-------------|
|   | 2010                          | 2009      | 2010                        | 2009        |
| \$  |                               |           |                             |             |
| Cash flow from (used in) operating activities | (166,680)                     | (884,228) | 182,604                     | (1,160,096) |
| Increase in non-cash working capital          | (402,491)                     | (168,105) | (219,894)                   | (727,417)   |
| Cash flow from operations (deficiency)        | 235,811                       | (716,123) | 402,498                     | (432,679)   |

## Financial and Operating Review

### Oil, Natural Gas and NGL Revenue and Production

#### Revenue

Revenue from the sale of oil, natural gas and NGL for the three and six month periods ended June 30, 2010 and 2009 consisted of the following:

|  | Three Months Ended |       | Six Months Ended |       |
|--|--------------------|-------|------------------|-------|
|  | June 30            |       | June 30          |       |
|  | 2010               | 2009  | 2010             | 2009  |
| (\$000's)                              |                    |       |                  |       |
| Oil                                    | 1,150              | 974   | 2,617            | 3,273 |
| Natural gas                            | 1,487              | 1,092 | 2,939            | 1,971 |
| NGL's                                  | 78                 | 54    | 275              | 101   |
| Total Oil, Natural gas and NGL Revenue | 2,715              | 2,120 | 5,831            | 5,345 |

Revenue increased in the second quarter of 2010, as compared to the same period in 2009, due to higher product prices and gas production offset by lower oil sales resulting from the sale of Puesto Guardian.

The sale of crude oil from Tierra del Fuego can be impacted by intermittent shipments. Oil production from Tierra del Fuego is stored and periodically transported by ship to a refinery on the mainland. As at June 30, 2010, Antrim held 22,700 (June 30, 2009 – 31,100) barrels of oil in inventory in Tierra del Fuego.

Net revenue after royalties and export taxes increased to \$4.9 million for the six months ended June 30, 2010 compared to \$4.7 million for the same period in 2009. The increase in net revenue is a result of higher gas production and higher product prices partially offset by lower oil production and higher royalties and export tax.

## Production

The following table provides a comparative analysis of average daily production of oil, natural gas and NGL for the three and six month periods ended June 30, 2010 and 2009:

|                            | Three Months Ended |       | Six Months Ended |       |
|----------------------------|--------------------|-------|------------------|-------|
|                            | June 30            |       | June 30          |       |
|                            | 2010               | 2009  | 2010             | 2009  |
| Oil (bbl/day)              | 289                | 547   | 344              | 533   |
| Natural gas (mmcf/day)     | 8.3                | 7.1   | 8.2              | 6.6   |
| NGL (bbl/day)              | 72                 | 42    | 68               | 42    |
| Total Production (boe/day) | 1,739              | 1,764 | 1,787            | 1,677 |

Gas production increased in the three and six month periods ended June 30, 2010, as compared to the same period in 2009, due to well tie ins to the San Martin pipeline during 2009 and new wells drilled in 2010. In the six months ended June 30, 2010, Antrim recorded oil production from Puesto Guardian for the period until the closing date of the sale on February 16, 2010. As a result, the average daily oil production reported includes 56 bbl/day of oil from Puesto Guardian.

Oil prices averaged \$46.91 per barrel in the six month period ended June 30, 2010 compared to \$36.06 per barrel in 2009. For the second quarter, 2010 oil prices averaged \$47.38 per barrel compared to \$37.57 per barrel for the same period in 2009.

Oil production from the Tierra del Fuego concession is sold with reference to the price of West Texas Intermediate (“WTI”) crude oil less a quality discount. Domestic oil sales are subject to a mandated discount which increases as the price of the WTI crude oil increases. In November 2007, changes to the export tax effectively limited the maximum price that producers could receive for crude oil exports to \$42 per barrel, regardless of the price of WTI. Despite this tax imposed ceiling price, increases in mainland Argentina demand have resulted in increased market prices for oil since the middle of 2009, resulting in increases in the oil price received.

Antrim’s gas sales prices in Argentina averaged \$1.87 and \$1.86 per mcf in the three and six month periods ended June 30, 2010 compared to \$1.56 and \$1.50 per mcf for the same periods in 2009. Average gas prices increased due to the negotiation of higher priced contracts combined with reduced volumes sold into the lower-priced residential market.

NGL prices, before export taxes, averaged \$28.78 per barrel in the six months ended June 30, 2010 compared to \$19.05 per barrel for the comparable period in 2009. For the second quarter 2010, NGL prices averaged \$16.07 per barrel compared to \$20.43 for the same periods in 2009. NGL prices decreased in the second quarter of 2010 as compared to 2009 as the Argentina Secretary of Energy restricted exports of NGL to Chile in May and June, resulting in sales of NGL into the lower-priced market on Tierra del Fuego.



## Royalties and Export Tax

The following table provides a comparative analysis of royalty and export tax expenses for the three and six month periods ended June 30, 2010 and 2009:

|                             | Three Months Ended |      | Six Months Ended |      |
|-----------------------------|--------------------|------|------------------|------|
|                             | June 30            |      | June 30          |      |
|                             | 2010               | 2009 | 2010             | 2009 |
| (\$000's)                   |                    |      |                  |      |
| Royalties                   | 421                | 288  | 879              | 641  |
| Percentage of Total revenue | 15.5               | 13.6 | 15.1             | 12.0 |
| Export tax                  | 10                 | 12   | 67               | 22   |
| Percentage of NGL revenue   | 13.2               | 21.7 | 24.5             | 21.9 |

Royalty expenses, as a percentage of total revenue, increased in 2010 compared to 2009 as government mandated royalty rates in Tierra del Fuego increased. Export taxes, as a percentage of NGL revenue, decreased in the second quarter of 2010 and 2009 as exports to Chile were curtailed for much of the period due to restrictions in obtaining export permits.

## Netbacks

The following table provides a comparative analysis of field netbacks, based on sales, for the three and six month periods ended June 30, 2010 and 2009:

|  | Three Months Ended |         | Six Months Ended |         |
|--|--------------------|---------|------------------|---------|
|  | June 30            |         | June 30          |         |
|  | 2010               | 2009    | 2010             | 2009    |
| \$/boe                                 |                    |         |                  |         |
| Wellhead price                         | 17.57              | 15.65   | 18.57            | 18.09   |
| Royalties                              | (2.72)             | (2.12)  | (2.80)           | (2.17)  |
| Export tax                             | (0.07)             | (0.09)  | (0.21)           | (0.08)  |
| Operating expenses                     | (6.45)             | (10.31) | (7.47)           | (10.60) |
| Netback                                | 8.33               | 3.13    | 8.09             | 5.24    |
| Oil, Natural gas and NGL sales (boe)   | 154,560            | 135,521 | 314,048          | 295,571 |
| Oil, Natural gas and NGL sales (boepd) | 1,698              | 1,489   | 1,735            | 1,633   |

The increase in netbacks for the three month period ended June 30, 2010, compared to the corresponding period in 2009 is primarily due to lower operating costs and higher sales prices partially offset by higher royalty expenses.

For the six month period ended June 30, 2010, operating costs on a boe basis decreased to \$7.47 compared to \$10.60 for 2009. In the first half of 2009 operating costs included drilling rig tolling charges of \$0.5 million or \$1.59 per boe.

Average per boe wellhead prices were impacted due to a higher proportion of gas to oil sales in 2010, as compared to 2009. The elimination of high operating costs related to the sale of Puesto Guardian contributed to lower per unit operating expenses in 2010 as compared to 2009.

### General and Administrative

General and administrative (“G&A”) costs increased in the first half of 2010 to \$3.1 million compared to \$2.8 million for the comparable period in 2009. The increase in G & A was due to the impact of changes in foreign exchange rates, lower cost recoveries from joint venture partners and lower capitalized costs. During the period, Antrim capitalized \$0.7 million (2009 - \$0.9 million) of G&A costs related to exploration and development activity in Argentina and United Kingdom.

### Depletion and Depreciation

Depletion and depreciation expense was \$3.3 million for the first half of 2010 compared to \$2.7 million in 2009. The consolidated per unit charge for the first half of 2010 was \$9.24 per boe compared to \$8.90 per boe in the same period of 2009. The per unit charge increased in 2010, as compared to 2009, due to 2010 drilling expenditures and a change in functional currency in Argentina. No depletion was recorded with respect to the \$225 million of United Kingdom assets as they are classified as unproven properties. Depletion of these assets will commence with production.

### Income Taxes

The following table provides a comparative analysis of income tax expenses for the three and six month periods ended June 30, 2010 and 2009.

|                      | Three Months Ended |       | Six Months Ended |       |
|----------------------|--------------------|-------|------------------|-------|
|                      | June 30            |       | June 30          |       |
|                      | 2010               | 2009  | 2010             | 2009  |
| (\$000's)            |                    |       |                  |       |
| Current income taxes | 53                 | 74    | 56               | 77    |
| Future income taxes  | -                  | (101) | -                | (182) |
| Total                | 53                 | (27)  | 56               | (105) |

Current income calculated relate to taxes based on the book value of assets in Argentina.

Future income taxes arise from differences between accounting and the tax basis of assets and liabilities. As of June 30, 2010, no future 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.

## **Foreign Exchange Loss and Comprehensive (Loss) 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, British pounds sterling or Argentine pesos. The Company's operating costs and certain of the Company's payments in order to maintain property interest 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, Argentine peso, and US dollar could result in unanticipated fluctuations in the Company's financial results.

The Company incurred a foreign exchange loss of \$0.1 million for the six months ended June 30, 2010 compared to a gain of \$0.3 million in the same period in 2009.

Effective January 1, 2009, the Company changed the functional currency for its operations in Argentina from Canadian dollars to Argentine pesos. Operational events in Argentina, with the tie-in of gas production in Tierra del Fuego, resulted in the business becoming a self sustaining entity. On a prospective basis, the Company adopted the current rate method for foreign exchange translation for its Argentina operations. Under the current rate method all balance sheet items are translated at the balance sheet date exchange rate and revenue and expense items at the exchange rate in effect at the date of the transaction. The resulting foreign exchange gain or loss is reported as an unrealized gain (loss) in comprehensive income (loss). The remaining operations of Antrim have the Canadian dollar as the functional currency. Assets and liabilities are translated into the reporting currency at the period end exchange rates and the results of changes in these rates are recorded as an unrealized gain (loss) in comprehensive income (loss).

The exchange rate for the Canadian dollar relative to the United States dollar decreased from US \$0.98 at March 31, 2010 to US \$0.95 at June 30, 2010 resulting in an unrealized loss on translation of the consolidated assets and liabilities of \$7.8 million for the three months ended June 30, 2010. An offsetting \$0.4 million unrealized gain on translation resulted from the exchange rate for the Argentine peso strengthening relative to the Canadian dollar from Cdn \$0.26 at March 31, 2010 to Cdn \$0.27 at June 30, 2010.

## **Cash Flow and Net Loss**

In the three month period ended June 30, 2010, Antrim generated cash flow from operations of \$0.2 million (\$0.00 per share) compared to a cash flow from operations deficiency of \$0.7 million (\$0.01 per share) in the same period in 2009. Antrim generated cash flow from operations of \$0.4 million (\$0.00 per share) in the first six months of 2010 compared to a cash flow from operations deficiency of \$0.4 million (\$0.00 per share) for the same period in 2009. Cash flow increased in 2010, as compared to 2009, due to higher revenue, higher interest and other income, and lower operating costs offset by higher general and administrative costs.

In the second quarter of 2010 and 2009, Antrim incurred net losses of \$2.0 million and \$2.9 million respectively. For the six months ended June 30, 2010, the company incurred a net loss of \$4.1 million compared to \$4.7 million in the same period of 2009.

## **Capital Expenditures**

Antrim incurred capital expenditures related to petroleum and natural gas properties of \$2.4 million and \$1.8 million for the second quarter of 2010 and 2009, respectively. For the six month periods ended June 30, 2010 and 2009, capital expenditures were \$3.4 million and \$4.3 million. Capital expenditures in 2010 relate to the drilling program in Argentina and ongoing development costs on the UK properties.

## **Financial Resources and Liquidity**

As at June 30, 2010, Antrim had working capital of \$27.8 million and no bank debt. There were no restrictions on the use of cash and cash equivalents at June 30, 2010 except for \$0.1 million of restricted cash that secures a US dollar denominated standby letter of credit issued with respect to the Company's land bid in Colombia. Accounts payable and accrued liabilities decreased to \$2.6 million at June 30, 2010 from \$4.1 million as at June 30, 2009 primarily due to reduced capital activity.

As part of the Conditional Letter Agreement with Valiant, Valiant agreed to loan Antrim up to \$2.2 million on a non-interest bearing basis to satisfy cash calls and invoices for joint operations prior to the completion of the sale. The loan relates to both the 30% interest conditionally sold to Valiant and Antrim's remaining 35.5% share. The balance outstanding as of June 30, 2010 was \$0.3 million. Upon successful completion of the sale, the outstanding loan balance related to Antrim's remaining 35.5% interest will be applied to and reduce the \$21.75 million carried contribution. If the sale is not completed, the outstanding balance on the entire 65.5% interest will be due and payable to Valiant immediately.

Antrim invests cash not required for immediate operations needs in Canadian denominated short-term bankers' acceptances and money market instruments.

Although there have been continued improvements in the global economy and financial markets in recent months, restrictions on availability of credit remain and may limit Antrim's ability to access debt or equity financing for its 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. The Company has reduced the time frame in projecting its future expenditures from an annual budget to a quarterly and, where applicable, monthly forecast process to enable Antrim to better adapt to changing market conditions. Although Antrim may need to raise additional funds from internal or external sources, which may include a farm out of exploration and development assets, if available, in order to develop both of its major UK properties, the Company maintains flexibility to manage its financial commitments.

Antrim's capital program for 2010 includes ongoing development of Fyne, the 25<sup>th</sup> bid round licences, Causeway and drilling in Tierra del Fuego. Causeway will be funded by the carried interest obtained from the conditional sale of the 30% interest to Valiant. The remaining capital expenditures will be funded by existing cash resources combined with operating cash flow.

## Contractual Obligations and Commitments

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

|   | 2010         | 2011          | 2012          | 2013          | 2014       | Thereafter   |
|---|--------------|---------------|---------------|---------------|------------|--------------|
| (\$000's)                                   |              |               |               |               |            |              |
| United Kingdom                              |              |               |               |               |            |              |
| • Fyne and Dandy <sup>(1)</sup>             | 444          | 10,033        | 23            | 23            | 23         | 23           |
| • Causeway <sup>(2)</sup>                   | 59           | 135           | 179           | 127           | 149        | 181          |
| • 25 <sup>th</sup> Bid Round <sup>(3)</sup> | 632          | 295           | 12,078        | 18,000        | -          | -            |
| Argentina                                   |              |               |               |               |            |              |
| • Tierra del Fuego <sup>(4)</sup>           | 860          | 650           | 650           | 650           | 650        | 1,300        |
| Office Leases                               | 144          | 287           | 251           | 104           | 104        | 338          |
| <b>Total</b>                                | <b>2,139</b> | <b>11,400</b> | <b>13,181</b> | <b>18,904</b> | <b>926</b> | <b>1,842</b> |

(1) The Company acquired a 75% working interest in Fyne and Dandy and upon approval of a Field Development Plan by DECC, has agreed to pay an additional \$10 million as part of the acquisition cost of the block.

(2) Relates to Antrim's 65.5% interest in Causeway prior to the conditional sale of 30% interest to Valiant.

(3) The Company acquired two licences in the 25<sup>th</sup> bid round which include contingent drilling commitments estimated at \$27 million in 2012 and 2013. These commitments will be waived by DECC if they agree that drilling the wells would not be an appropriate use of resources. The remaining licences include committed licence fees and seismic costs to drill or drop decision.

(4) Includes drilling rig commitments of \$0.9 million.

On March 4, 2010, the Company announced that it had signed a Conditional Letter Agreement to sell a 30% interest in the UK North Sea Causeway property. The Company will receive up to \$21.75 million contributed to the Company's remaining share of development costs of bringing the field to production start-up. Completion of the transaction is subject to several conditions including the sanction of a FDP by the UK Department of Energy and Climate Change which is anticipated in early 2011.

## Outlook

Antrim's strong financial position, which includes unrestricted cash available of \$26.4 million and no bank debt, provides Antrim with financial and operational flexibility.

With the expectation that Causeway will be funded to production and with the intention to acquire a development partner for Fyne, Antrim's other North Sea activity will be weighted towards adding value by exploring for new hydrocarbons and appraising existing discoveries.

Antrim's daily production in Argentina is expected to average approximately 1,800 net boepd in 2010. Production from the successful drilling program is anticipated to mitigate reservoir decline rates for the balance of 2010 and 2011.

Antrim intends to grow the Argentine operation primarily through new in-country opportunities using the cash flow from existing Argentine operations.

Antrim is also considering other global exploration opportunities. Antrim views its bilateral strategy of balancing longer term and capital-intensive investments in the UK North Sea with shorter investment cycle on-shore exploration and production opportunities as central to its corporate development.

### Summary of Quarterly Results

| (\$000, except per<br>share amounts) | <b>Oil, Natural Gas<br/>and NGL Revenue,<br/>Net of Royalties<br/>and Export Tax</b> | <b>Cash Flow from<br/>Operations<br/>(deficiency)</b> | <b>(Loss)</b>   | <b>(Loss) Per<br/>Share – Basic</b> |
|--------------------------------------|--|---|-----------------|-------------------------------------|
| <b>2010</b>                          |  |   |                 |                                     |
| Second quarter                       | 2,284  | 236   | (2,020)         | (0.02)                              |
| First quarter                        | 2,601  | 166   | (2,111)         | (0.01)                              |
| <b>Total</b>                         | <b>4,885</b>   | <b>402</b>  | <b>(4,131)</b>  | <b>(0.03)</b>                       |
| <b>2009</b>                          |  |   |                 |                                     |
| Fourth quarter                       | 2,796  | (1,378)   | (6,071)         | (0.04)                              |
| Third quarter                        | 3,590  | 744   | (1,751)         | (0.01)                              |
| Second quarter                       | 1,821  | (716)   | (2,888)         | (0.03)                              |
| First quarter                        | 2,861  | 283   | (1,850)         | (0.01)                              |
| <b>Total</b>                         | <b>11,068</b>  | <b>(1,067)</b>  | <b>(12,560)</b> | <b>(0.09)</b>                       |
| <b>2008</b>                          |  |   |                 |                                     |
| Fourth quarter                       | 2,313  | (1,032)   | (7,152)         | (0.05)                              |
| Third quarter                        | 2,875  | 886   | (1,507)         | (0.01)                              |
| Second quarter                       | 1,849  | (986)   | (3,564)         | (0.03)                              |
| First quarter                        | 3,236  | 1,439   | (808)           | (0.01)                              |
| <b>Total</b>                         | <b>10,273</b>  | <b>307</b>  | <b>(13,031)</b> | <b>(0.10)</b>                       |

Antrim's net revenue and cash flow from operations has fluctuated over the quarters due to intermittent shipments of crude oil from Tierra del Fuego, increasing gas sales and lower oil production due to decline rates. Fourth quarter cash flow from operations and loss in 2009 and 2008 were negatively impacted by VAT valuation allowances. Fourth quarter losses in 2009 and 2008 also increased due to the write-down of investments and other non-current assets and future income tax assets.

## **Conversion to International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that the mandatory changeover from existing Canadian GAAP to International Financial Reporting Standards (“IFRS”) is to take effect for financial years beginning on or after January 1, 2011. The Company will report its results in accordance with IFRS starting in 2011, with comparative IFRS information for the 2010 fiscal year. The key elements of the Company’s conversion plan include determining appropriate changes to accounting policies and disclosures, identifying and implementing associated changes to processes and information systems, ensuring compliance to internal controls and educating and training staff and other stakeholders. The Company has completed a diagnostic analysis of the differences between Canadian GAAP and IFRS and is analyzing accounting policy alternatives and systems changes for impact areas, including available first time adoption alternatives.

Possible significant accounting difference between Antrim’s current accounting policies under Canadian GAAP and expected accounting policies under IFRS are as follows:

First-time adoption exemption – the International Accounting Standards Board has approved additional exemptions from the retrospective application of IFRS for first time adopters. Of most relevance to Antrim is an exemption that allows full cost oil and gas companies to elect, at the date of transition to IFRS, to measure exploration evaluation assets at the amount determined under Canadian GAAP and to measure oil and gas assets in the development or production phases by allocating the amount determined under Canadian GAAP to the underlying assets pro-rata using reserve volumes or reserve values as of that that date. The Company is planning to adopt this exemption.

Re-classification of exploration and evaluation (“E&E”) expenditures from property, plant and equipment (“PP&E”) on the consolidated balance sheet – this will consist of the book value of Antrim’s undeveloped land that relates primarily to its UK properties which are currently excluded from the depletion calculation and are assessed for impairment. E&E assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.

Calculation of depletion expense for PP&E – upon transitioning to IFRS, Antrim has the option to calculate depletion using a reserve base of proved reserves or both proved and probable reserves, as compared to the Canadian GAAP method of calculating depletion using only proved reserves.

Impairment of PP&E – under IFRS, impairment of PP&E must be calculated at a more detailed level than what is currently required under Canadian GAAP. Impairment calculations will be performed at the Cash Generating Unit level based on discounted cash flows.

Asset retirement obligation – under IFRS, asset retirement obligations will be calculated based on end of year risk free discount rates. As Antrim plans to adopt the first-time adoption exemption for full-cost oil and gas companies described above, differences in the liability calculated under Canadian GAAP and IFRS as at January 1, 2010 which arise due to different discount rates or cost estimates will be recorded to retained earnings.

Cumulative translation differences – under IFRS, translation gains or losses are not recognized in profit and loss until disposition of the business for foreign operations with functional currencies different from that of the parent company. The Company plans to adopt the first-time adoption exemption available in IFRS 1, whereby cumulative translation differences are deemed to be zero at the transition balance sheet date with the difference recorded directly to retained earnings.

Stock-based compensation – under IFRS, stock-based compensation will be expensed based on a graded vesting schedule rather than the straight-line method utilized by the Company under Canadian GAAP. The difference calculated using the two methods for options that were not fully vested on the transition date will be recorded to retained earnings.

At this time, the impact on the Company's financial position and results of operations is not reasonably determinable for the accounting policy differences previously identified. Antrim's implementation plan includes the assessment of accounting policy alternatives and systems changes. The Company commenced preparation of the transitional balance sheet and will prepare the 2010 results under IFRS in the second half of 2010.

### **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 Canadian GAAP. There were no changes in the Company's internal controls over financial reporting that occurred during the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control 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.

### **Related Party and Off-Balance Sheet Transactions**

Antrim may from time to time enter into arrangements with related parties. In the first half of 2010, Antrim incurred fees of \$131,594 (2009 - \$21,421) payable to Burstall Winger LLP, a law firm in which a director of the Company is a partner. The Company had no off-balance sheet transactions in the first six months of 2010.



## **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. The oil and natural gas industry is intensely competitive and the Company competes with a large number of companies that have greater resources.

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 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.

The Company has significant investments in Argentina and the United Kingdom and its primary source of revenue is from one oil and gas property in Argentina. Risks are associated with conducting foreign operations over which the Company has no control, include 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 23, 2010 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking 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 quality 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 commodity prices, foreign currency exchange rates and interest rates, capital expenditure programs and other expenditures, supply and demand for oil, NGL’s 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 and the start up of production from the Causeway or Fyne fields in the UK North Sea.

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 finalize the sale of a portion of Causeway to Valiant, obtain access to sub-sea or floating facilities including transportation and production storage offloading providers in the UK North Sea for production from Fyne and Causeway, 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 more specifically the ability of Valiant to honour its commitments are identified in the Conditional Letter Agreement. Antrim’s ability to obtain financing on acceptable terms, 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, 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, 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 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 Fyne fields in the UK North Sea and at the Tierra del Fuego properties in Argentina. 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, Argentina, South 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 to the capped market price in Argentina, 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.

Statements relating to "resources" are deemed to be forward-looking statements. The estimates of remaining recoverable prospective resources have been risked for chance of discovery, but have not been risked for chance of development. If a discovery is made, there is no certainty that it will be developed or, if it is developed, there is no certainty as to the timing of such development.

Many of these risk factors, other specific risks, uncertainties and material assumptions are discussed in further detail throughout the MD&A and in Antrim's management discussion and analysis for the year ended December 31, 2009. 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](http://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.

**Antrim Energy Inc.**  
**Consolidated Balance Sheets**  
**As at June 30, 2010 and December 31, 2009 (unaudited)**  
**(U.S. Dollars)**

|  | <b>2010</b>        | <b>2009</b>        |
|--|--------------------|--------------------|
|  | <b>\$</b>          | <b>\$</b>          |
| <b>Assets</b>  |                    |                    |
| <b>Current assets</b>                                    |                    |                    |
| Cash and cash equivalents                                | 26,406,107         | 31,168,669         |
| Restricted cash (note 4)                                 | 100,000            | -                  |
| Accounts receivable                                      | 3,128,249          | 3,278,166          |
| Inventory and prepaid expenses (note 5)                  | 1,039,459          | 937,513            |
|  | <u>30,673,815</u>  | <u>35,384,348</u>  |
| <b>Petroleum and natural gas properties</b> (note 6)     | 248,003,083        | 248,012,987        |
| <b>Office equipment</b> (note 7)                         | 509,196            | 447,160            |
| <b>Investments and other non-current assets</b> (note 8) | 1,846,353          | 1,274,384          |
|  | <u>281,032,447</u> | <u>285,118,879</u> |
| <b>Liabilities</b>                                       |                    |                    |
| <b>Current liabilities</b>                               |                    |                    |
| Accounts payable and accrued liabilities                 | 2,575,531          | 3,424,596          |
| Loan from Valiant (note 9)                               | 277,081            | -                  |
|  | <u>2,852,612</u>   | <u>3,424,596</u>   |
| <b>Asset retirement obligation</b> (note 10)             | 5,361,781          | 5,696,945          |
|  | <u>8,214,393</u>   | <u>9,121,541</u>   |
| <b>Commitments and contingencies</b> (note 17)           |                    |                    |
| <b>Shareholders' equity</b>                              |                    |                    |
| <b>Share capital</b> (note 11)                           | 311,956,700        | 311,946,244        |
| <b>Contributed surplus</b> (note 12)                     | 16,787,054         | 15,605,999         |
| <b>Deficit</b>   | (53,717,598)       | (49,586,859)       |
| <b>Accumulated other comprehensive loss</b> (note 13)    | (2,208,102)        | (1,968,046)        |
|  | <u>272,818,054</u> | <u>275,997,338</u> |
|  | <u>281,032,447</u> | <u>285,118,879</u> |

**Antrim Energy Inc.**  
**Consolidated Statements of Income (Loss) and Deficit**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**  
**(U.S. Dollars)**

|  | <b>Three Months Ended</b> |              | <b>Six Months Ended</b> |              |
|--|---------------------------|--------------|-------------------------|--------------|
|  | <b>June 30</b>            |              | <b>June 30</b>          |              |
|  | <b>2010</b>               | <b>2009</b>  | <b>2010</b>             | <b>2009</b>  |
|  | \$                        | \$           | \$                      | \$           |
| <b>Revenue</b>                                 |                           |              |                         |              |
| Oil and gas                                    | 2,715,104                 | 2,120,116    | 5,830,918               | 5,345,199    |
| Royalties                                      | (421,049)                 | (287,891)    | (879,012)               | (641,096)    |
| Export tax                                     | (10,300)                  | (11,773)     | (67,365)                | (22,170)     |
|  | 2,283,755                 | 1,820,452    | 4,884,541               | 4,681,933    |
| <b>Interest and other income</b>               | 523,500                   | 248,601      | 1,001,567               | 829,410      |
|  | 2,807,255                 | 2,069,053    | 5,886,108               | 5,511,343    |
| <b>Expenses</b>                                |                           |              |                         |              |
| Operating                                      | 997,529                   | 1,396,790    | 2,345,183               | 3,133,065    |
| General and administrative                     | 1,571,768                 | 1,381,586    | 3,106,143               | 2,762,107    |
| Stock-based compensation                       | 584,608                   | 935,420      | 923,844                 | 1,791,952    |
| Depletion and depreciation                     | 1,666,053                 | 1,430,938    | 3,321,143               | 2,672,874    |
| Accretion of asset retirement obligations      | 76,110                    | 147,631      | 155,287                 | 278,428      |
| Foreign exchange (gain) loss                   | (121,862)                 | (308,510)    | 109,388                 | (284,503)    |
|  | 4,774,206                 | 4,983,855    | 9,960,988               | 10,353,923   |
| <b>Loss for the period before income taxes</b> | (1,966,951)               | (2,914,802)  | (4,074,880)             | (4,842,580)  |
| <b>Income tax expense (recovery)</b>           |                           |              |                         |              |
| Current  | 52,901                    | 74,092       | 55,859                  | 77,029       |
| Future   | -                         | (101,318)    | -                       | (182,108)    |
|  | 52,901                    | (27,226)     | 55,859                  | (105,079)    |
| <b>Net Loss for the period</b>                 | (2,019,852)               | (2,887,576)  | (4,130,739)             | (4,737,501)  |
| <b>Deficit – Beginning of period</b>           | (51,697,746)              | (38,877,193) | (49,586,859)            | (37,027,268) |
| <b>Deficit – End of period</b>                 | (53,717,598)              | (41,764,769) | (53,717,598)            | (41,764,769) |
| <b>Net loss per common share</b>               |                           |              |                         |              |
| <b>Basic</b>                                   | (0.02)                    | (0.03)       | (0.03)                  | (0.04)       |
| <b>Diluted</b>                                 | (0.02)                    | (0.03)       | (0.03)                  | (0.04)       |

**Antrim Energy Inc.****Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)****For the Periods ended June 30, 2010 and 2009 (unaudited)****(U.S. Dollars)**

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|  | <b>Three Months Ended</b> |              | <b>Six Months Ended</b> |              |
|--|---------------------------|--------------|-------------------------|--------------|
|  | <b>June 30</b>            |              | <b>June 30</b>          |              |
|  | <b>2010</b>               | <b>2009</b>  | <b>2010</b>             | <b>2009</b>  |
|  | <b>\$</b>                 | <b>\$</b>    | <b>\$</b>               | <b>\$</b>    |
| <b>Net loss for the period</b>   | (2,019,852)               | (2,887,576)  | (4,130,739)             | (4,737,501)  |
| <b>Comprehensive income (loss)</b>   |                           |              |                         |              |
| Unrealized (loss) gain on translation of consolidated financial statements (note 13) | (7,445,567)               | 16,649,626   | (240,056)               | 9,650,085    |
| <b>Comprehensive income (loss)</b>   | (9,465,419)               | 13,762,050   | (4,370,795)             | 4,912,584    |
| <b>Accumulated other comprehensive income (loss) – Beginning of period</b>           | 5,237,465                 | (41,256,957) | (1,968,046)             | (31,318,787) |
| Change in accounting policy (note 2)   | -                         | -            | -                       | (2,938,629)  |
| Other comprehensive (loss) income (note 13)  | (7,445,567)               | 16,649,626   | (240,056)               | 9,650,085    |
| <b>Accumulated other comprehensive income (loss) – End of period</b>                 | (2,208,102)               | (24,607,331) | (2,208,102)             | (24,607,331) |

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**Antrim Energy Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Periods ended June 30, 2010 and 2009 (unaudited)**  
**(U.S. Dollars)**

|   | <b>Three Month Ended</b> |             | <b>Six Months Ended</b> |             |
|---|--------------------------|-------------|-------------------------|-------------|
|   | <b>June 30</b>           |             | <b>June 30</b>          |             |
|   | <b>2010</b>              | <b>2009</b> | <b>2010</b>             | <b>2009</b> |
|   | <b>\$</b>                | <b>\$</b>   | <b>\$</b>               | <b>\$</b>   |
| <b>Cash Provided by (used in)</b>                               |                          |             |                         |             |
| <b>Operating Activities</b>                                     |                          |             |                         |             |
| Net loss for the period   | (2,019,852)              | (2,887,576) | (4,130,739)             | (4,737,501) |
| Items not involving cash:                                       |                          |             |                         |             |
| Depletion and depreciation                                      | 1,666,053                | 1,430,938   | 3,321,143               | 2,672,874   |
| Accretion of asset retirement obligations                       | 76,110                   | 147,631     | 155,287                 | 278,428     |
| Stock-based compensation expense                                | 584,608                  | 935,420     | 923,844                 | 1,791,952   |
| Foreign exchange (gain) loss                                    | (71,108)                 | (241,218)   | 132,963                 | (256,324)   |
| Future income taxes   | -                        | (101,318)   | -                       | (182,108)   |
|   | 235,811                  | (716,123)   | 402,498                 | (432,679)   |
| Change in non-cash working capital items<br>(note 15)           | (402,491)                | (168,105)   | (219,894)               | (727,417)   |
|   | (166,680)                | (884,228)   | 182,604                 | (1,160,096) |
| <b>Financing Activities</b>                                     |                          |             |                         |             |
| Issue of common shares  | 5,231                    | (6,859)     | 6,223                   | (6,859)     |
|   | 5,231                    | (6,859)     | 6,223                   | (6,859)     |
| <b>Investing Activities</b>                                     |                          |             |                         |             |
| Office equipment  | (36,646)                 | (68,591)    | (193,569)               | (74,450)    |
| Petroleum and natural gas properties                            | (2,447,511)              | (1,811,461) | (3,437,815)             | (4,278,764) |
| Restricted cash   | (100,000)                | -           | (100,000)               | -           |
| Other non-current assets  | (33,446)                 | 15,162      | (599,127)               | 16,806      |
|   | (2,617,603)              | (1,864,890) | (4,330,511)             | (4,336,408) |
| Change in non-cash working capital items<br>(note 15)           | 502,026                  | (344,268)   | (473,122)               | (1,065,607) |
|   | (2,115,577)              | (2,209,158) | (4,803,633)             | (5,402,015) |
| Effect of foreign exchange translations on<br>cash flow         | (692,015)                | 2,498,290   | (147,756)               | 1,869,562   |
| <b>Net (decrease) increase in cash and cash<br/>equivalents</b> | (2,969,041)              | (601,955)   | (4,762,562)             | (4,699,408) |
| <b>Cash and cash equivalents – Beginning<br/>of period</b>      | 29,375,148               | 31,239,554  | 31,168,669              | 35,337,007  |
| <b>Cash and cash equivalents – End of<br/>period</b>            | 26,406,107               | 30,637,599  | 26,406,107              | 30,637,599  |

# **Notes to Consolidated Financial Statements**

## **For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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### **1. BASIS OF PRESENTATION**

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The unaudited interim financial statements were prepared using the same accounting policies and should be read in conjunction with the audited financial statements as at and for the year ended December 31, 2009. All amounts are reported in US \$ except as otherwise noted.

### **2. CHANGES IN ACCOUNTING POLICIES**

#### **Change in Functional Currency**

Effective January 1, 2009, the Company changed its functional currency from Cdn \$ to Argentine pesos (“ARS”) for its Argentina subsidiary, as the Company considers the subsidiary self sustaining and anticipates that the majority of its future income stream and expenditures will be denominated in ARS. The change was made on a prospective basis and as a result of the change, the Company recorded an adjustment to opening accumulated other comprehensive income (loss) of \$2,938,629 as at January 1, 2009. The functional currency of the parent company and all of its other subsidiaries continues to be Cdn \$.

### **3. NEW ACCOUNTING STANDARD**

In December 2008, the CICA issued Section 1582 “Business Combinations” which will replace CICA Section 1581 of the same name. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011. Adoption of this accounting standard is not expected to have a material effect on Antrim’s consolidated financial statements.

### **4. RESTRICTED CASH**

Restricted cash at June 30, 2010 relates to a US dollar denominated standby letter of credit issued with respect to the Company’s land bid in Colombia. The standby letter of credit is expected to be returned in the third quarter of 2010 as the Company’s bid was not successful.

### **5. INVENTORY AND PREPAID EXPENSES**

Inventory and prepaid expenses at June 30, 2010 include \$465,371 (2009 – \$351,791) of crude oil that has been produced but not yet sold. Inventories of crude oil are valued at the lower of average cost and net realizable value.



**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

**6. PETROLEUM AND NATURAL GAS PROPERTIES**

|                | <b>June 30, 2010</b> |   |                       |
|----------------|----------------------|---|-----------------------|
|                | <b>Cost</b>          | <b>Accumulated depletion<br/>and depreciation</b> | <b>Net book value</b> |
|                | \$                   | \$  | \$                    |
| Argentina      | 49,778,865           | 26,552,827  | 23,226,038            |
| United Kingdom | 228,152,770          | 3,375,725   | 224,777,045           |
|                | <u>277,931,635</u>   | <u>29,928,552</u>                                 | <u>248,003,083</u>    |

|                | <b>December 31, 2009</b> |   |                       |
|----------------|--------------------------|---|-----------------------|
|                | <b>Cost</b>              | <b>Accumulated depletion<br/>and depreciation</b> | <b>Net book value</b> |
|                | \$                       | \$  | \$                    |
| Argentina      | 50,936,845               | 26,408,646  | 24,528,199            |
| United Kingdom | 226,763,179              | 3,278,391   | 223,484,788           |
|                | <u>277,700,024</u>       | <u>29,687,037</u>                                 | <u>248,012,987</u>    |

During the period, the Company capitalized \$442,305 (2009 – \$366,898) of general and administrative and \$261,444 (2009 – \$516,702) of stock-based compensation costs related to exploration and development activity. At June 30, 2010, petroleum and natural gas properties include \$224,777,045 (2009 – \$223,484,788) relating to unproven properties that have been excluded from the depletion calculation.

During the first quarter, the Company disposed of its Puesto Guardian, Medianera and Tres Nidos Sur properties in Argentina resulting in a reduction of \$0.7 million in net book value of petroleum and natural gas properties and a reduction of \$0.9 million in asset retirement obligations.

**7. OFFICE EQUIPMENT**

Office equipment of \$509,196 (2009 – \$447,160) is net of accumulated depreciation of \$1,279,226 (2009 – \$1,372,334).

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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**8. INVESTMENTS AND OTHER NON-CURRENT ASSETS**

|                                      | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--------------------------------------|--------------------------|------------------------------|
|                                      | <b>\$</b>                | <b>\$</b>                    |
| Non-interest bearing promissory note | 630,100                  | -                            |
| Interest bearing bonds               | 829,331                  | 796,536                      |
| VAT receivable                       | 386,921                  | 409,506                      |
| Long-term receivable                 | -                        | 68,341                       |
| Investment in NOR                    | 1                        | 1                            |
|                                      | <u>1,846,353</u>         | <u>1,274,384</u>             |

On February 16, 2010, the Company sold its 40% working interest in Puesto Guardian Argentina, with an effective date of January 1, 2010 for consideration of a \$1,360,203 non-interest bearing promissory note. The note has a maturity date of February 16, 2014 and is convertible into common shares of Tripetrol Holdings Inc., a private Cayman Island incorporated company, at the option of Antrim. The Company estimated the fair value of the note receivable to be \$0.6 million and no value was given to the option to convert the note receivable to common shares of Tripetrol Holdings Inc., with this amount reducing the book value of the Company's petroleum and natural gas properties.

In 2009 the Argentina state owned natural gas transportation company commenced a project to increase capacity on the pipeline connecting Tierra del Fuego with the mainland. The Company was obligated to invest in the project through the purchase of interest bearing bonds issued by a national trust created by the Argentine government. The bonds initially bear interest at 15% and will be repaid in thirty quarterly instalments commencing in 2011.

VAT receivable is net of \$832,878 determined to be uncollectible and written off in 2009 due to the sale of Puesto Guardian. The long-term receivable is net of \$695,655 which was forgiven and written off in 2009 as part of the relinquishment of the Company's interest in the Medianera joint venture.

At June 30, 2010 and December 31, 2009, the Company held 1,175,000 common shares of NOR Energy AS (NOR), a private Norwegian company, representing less than 10% of the common shares of NOR. The Company held warrants to acquire 700,000 common shares of NOR at a price of \$1.00 per share which expired on May 26, 2009. In 2008 the Company reduced its carrying value of the NOR shares to the estimated net realizable value of \$1 as NOR sold its major asset.

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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**9. LOAN FROM VALIANT**

As part of the Conditional Letter Agreement to sell a 30% interest in the UK North Sea Causeway property (see note 17), Valiant Petroleum plc (“Valiant”) agreed to loan the Company up to \$2,200,000 on a non-interest bearing basis, to satisfy cash calls and invoices for joint operations due and payable under the joint operating agreement prior to completion of the sale. The loan relates to both the 30% interest conditionally sold to Valiant and the Company’s remaining 35.5% share. The balance outstanding as of June 30, 2010 was \$277,081. Upon successful completion of the sale, the outstanding loan balance payable to Valiant for the Company’s remaining 35.5% interest will be applied to and reduce the \$21,750,000 carried contribution. If the sale is not completed, any outstanding balance for the entire 65.5% interest will be due and payable to Valiant immediately.

**10. ASSET RETIREMENT OBLIGATIONS**

At June 30, 2010, the estimated undiscounted asset retirement obligations are \$1,424,770 (2009 – \$2,604,345) and \$9,461,060 (2009 – \$10,000,685) for Argentina and United Kingdom, respectively. The Company expects the undiscounted obligations to be payable after 2015 for Argentina and 2023 for the United Kingdom. The present value of the asset retirement obligations has been calculated using credit adjusted risk free rates of between 7.9% and 10% (2009 – 7.9% and 9.3%) and an inflation rate of 2% (2009 – 2.0%).

Changes to asset retirement obligations were as follows:

|   | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|--------------------------|------------------------------|
|   | <b>\$</b>                | <b>\$</b>                    |
| Asset Retirement obligations, beginning of period | 5,696,945                | 9,913,898                    |
| Accretion expense                                 | 155,287                  | 581,638                      |
| Dispositions                                      | (916,554)                | -                            |
| Increase in liabilities                           | 21,241                   | -                            |
| Change in estimated future cash flows             | 401,716                  | (6,077,164)                  |
| Foreign currency translation                      | 3,146                    | 1,278,573                    |
| Asset retirement obligations, end of period       | <u>5,361,781</u>         | <u>5,696,945</u>             |

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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**11. SHARE CAPITAL**

**Authorized**

Unlimited number of common voting shares

Unlimited number of preferred shares

| <b>Common shares issued</b>                      | <b>Number of<br/>Shares</b> | <b>Amount<br/>\$</b> |
|--|-----------------------------|----------------------|
| Balance – December 31, 2008                      | 135,322,116                 | 311,927,578          |
| Employee share ownership plan                    | (41,011)                    | (14,915)             |
| Exercise of stock options                        | 68,167                      | 33,581               |
| Balance – December 31, 2009                      | 135,349,272                 | 311,946,244          |
| Contributed surplus on exercise of stock options | -                           | 4,233                |
| Exercise of stock options                        | 20,668                      | 6,223                |
| Balance – June 30, 2010                          | 135,369,940                 | 311,956,700          |

**Stock options**

The Company has established a stock option plan whereby the Company may grant options to its directors, officers, employees and consultants for 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 typically vest evenly over a period of three years from the date of grant and expire five years after the date of grant.

Pursuant to the Company's stock option plan, as at June 30, 2010 there were 11,819,497 options outstanding to purchase common share at prices ranging from \$0.31 Cdn to \$6.95 Cdn.

**Stock-Based Compensation Costs**

The Company measures all stock-based compensation using the fair value method of accounting and recognizes the result as compensation expense in the financial statements. Stock-based compensation costs are recognized over the vesting period of the stock options granted. Stock-based compensation costs for the periods ended June 30, 2010 and 2009 were \$1,185,288 and \$2,308,654 respectively.

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

Options totaling 1,545,000 (2009 – 550,000) were granted during the six month period ended June 30, 2010. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate – 2.6%; expected life – 4.5 years; expected volatility – 82%; expected dividend yield – nil.

**Per Share Information**

In calculating basic and diluted net loss per common share amounts, the following weighted average shares were used:

|   | <b>June 30,<br/>2010</b> | <b>June 30,<br/>2009</b> |
|---|--------------------------|--------------------------|
|   | <b>Number of shares</b>  | <b>Number of shares</b>  |
| Weighted average number of shares outstanding | 135,354,761              | 135,281,105              |
| Effect of stock options                       | 2,045,023                | -                        |
| Diluted average number of shares outstanding  | <u>137,399,784</u>       | <u>135,281,105</u>       |

In calculating diluted net loss per share for the periods ended June 30, 2010 and 2009, the Company excluded the effects of stock options as they were anti-dilutive. Weighted average exercisable stock options of 8,662,264 at June 30, 2010 have been excluded from the diluted average number of shares outstanding as they were anti-dilutive.

**12. CONTRIBUTED SURPLUS**

|  | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|--------------------------|------------------------------|
|  | <b>\$</b>                | <b>\$</b>                    |
| Balance-beginning of period                            | 15,605,999               | 11,664,179                   |
| Stock-based compensation                               | 1,185,288                | 3,955,413                    |
| Transfer to share capital on exercise of stock options | (4,233)                  | (13,593)                     |
| Balance-end of period                                  | <u>16,787,054</u>        | <u>15,605,999</u>            |

**13. OTHER COMPREHENSIVE INCOME**

The consolidated assets and liabilities are translated from their functional currencies to the United States dollar reporting currency at the period end exchange rates and the results of changes in these rates are recorded as an unrealized gain (loss) in comprehensive income (loss) and accumulated comprehensive income (loss).

## **Notes to Consolidated Financial Statements**

### **For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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The exchange rate for the Canadian dollar relative to the United States dollar decreased from US \$0.98 at March 31, 2010 to US \$0.95 at June 30, 2010 resulting in an unrealized loss on translation of the consolidated assets and liabilities of \$7,806,089. An offsetting \$360,522 unrealized gain resulted from the exchange rate for the Argentine peso strengthening relative to the Canadian dollar from Cdn \$0.26 at March 31, 2010 to Cdn \$0.27 at June 30, 2010.

#### **14. INCOME TAXES**

The Company incurred losses in several of the countries that it operates in. Although the majority of the Company's operations are in the UK and Argentina, it maintains its head office in Canada. Certain costs incurred in Canada related to executive management, administrative and public company costs cannot be allocated to foreign operations resulting in non-capital loss carry-forwards in Canada. No accounting recognition has been given to the losses in Canada, Argentina or the UK as there is uncertainty with respect to the ability to generate sufficient taxable income to utilize the losses. All remaining operations in Argentina are located in Tierra del Fuego which is a tax-exempt province.

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

|   | Three Months Ended |                  | Six Months Ended |                    |
|---|--------------------|------------------|------------------|--------------------|
|   | June 30            |                  | June 30          |                    |
|   | 2010               | 2009             | 2010             | 2009               |
|   | \$                 | \$               | \$               | \$                 |
| Operating Activities:                       |                    |                  |                  |                    |
| (Increase) decrease in current assets:      |                    |                  |                  |                    |
| Accounts receivable                         | (273,112)          | 575,980          | (638,245)        | 575,963            |
| Inventory and prepaid expenses              | (188,276)          | (728,203)        | (194,257)        | (407,907)          |
| Increase (decrease) in current liabilities: |                    |                  |                  |                    |
| Accounts payable and accrued liabilities    | 58,897             | (9,023)          | 612,608          | (888,614)          |
| Employee share ownership plan contribution  | -                  | (6,859)          | -                | (6,859)            |
|   | <u>(402,491)</u>   | <u>(168,105)</u> | <u>(219,894)</u> | <u>(727,417)</u>   |
| Investing activities:                       |                    |                  |                  |                    |
| (Decrease) in current assets:               |                    |                  |                  |                    |
| Accounts receivable                         | 183,502            | 604,541          | (209,402)        | 19,232             |
| Increase (decrease) in current liabilities: |                    |                  |                  |                    |
| Accounts payable and accrued liabilities    | 318,524            | (948,809)        | (263,720)        | (1,084,839)        |
|   | <u>502,026</u>     | <u>(344,268)</u> | <u>(473,122)</u> | <u>(1,065,607)</u> |
| Interest received                           | 21,201             | 22,808           | 36,604           | 116,722            |
| Income taxes paid                           | 52,901             | 74,092           | 55,859           | 77,029             |

**16. SEGMENTED INFORMATION**

|                |                    |                  |                    |                    | June 30, 2010      |
|----------------|--------------------|------------------|--------------------|--------------------|--------------------|
|                | Revenue            |                  | (Loss)             |                    | Identifiable       |
|                | Three Months Ended | Six Months Ended | Three Months Ended | Six Months Ended   | assets             |
|                | \$                 | \$               | \$                 | \$                 | As at \$           |
| Canada         | -                  | -                | (1,693,652)        | (2,971,755)        | 23,122,579         |
| Argentina      | 2,715,104          | 5,830,918        | (84,724)           | (409,956)          | 31,124,328         |
| United Kingdom | -                  | -                | (241,476)          | (749,028)          | 226,785,540        |
| Total          | <u>2,715,104</u>   | <u>5,830,918</u> | <u>(2,019,852)</u> | <u>(4,130,739)</u> | <u>281,032,447</u> |

**Notes to Consolidated Financial Statements**  
**For the Periods Ended June 30, 2010 and 2009 (unaudited)**

|                | <b>June 30, 2009</b>              |                                 |                                   |                                 | <b>Identifiable<br/>assets</b> |
|----------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|--------------------------------|
|                | <b>Revenue</b>                    |                                 | <b>(Loss)</b>                     |                                 |                                |
|                | <b>Three<br/>Months<br/>Ended</b> | <b>Six<br/>Months<br/>Ended</b> | <b>Three<br/>Months<br/>Ended</b> | <b>Six<br/>Months<br/>Ended</b> |                                |
|                | <b>\$</b>                         | <b>\$</b>                       | <b>\$</b>                         | <b>\$</b>                       |                                |
|                |                                   |                                 |                                   |                                 | <b>As at<br/>\$</b>            |
| Canada         | -                                 | -                               | (1,657,859)                       | (3,193,992)                     | 26,565,842                     |
| Argentina      | 2,120,116                         | 5,345,199                       | (971,643)                         | (910,736)                       | 36,212,899                     |
| United Kingdom | -                                 | -                               | (258,074)                         | (632,773)                       | 211,581,082                    |
| <b>Total</b>   | <b>2,120,116</b>                  | <b>5,345,199</b>                | <b>(2,887,576)</b>                | <b>(4,737,501)</b>              | <b>274,359,823</b>             |

**17. COMMITMENTS AND CONTINGENCIES**

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

|   | <b>2010</b>  | <b>2011</b>   | <b>2012</b>   | <b>2013</b>   | <b>2014</b> | <b>Thereafter</b> |
|---|--------------|---------------|---------------|---------------|-------------|-------------------|
| <b>(\$000's)</b>                            |              |               |               |               |             |                   |
| <b>United Kingdom</b>                       |              |               |               |               |             |                   |
| • Fyne and Dandy <sup>(1)</sup>             | 444          | 10,033        | 23            | 23            | 23          | 23                |
| • Causeway <sup>(2)</sup>                   | 59           | 135           | 179           | 127           | 149         | 181               |
| • 25 <sup>th</sup> Bid Round <sup>(3)</sup> | 632          | 295           | 12,078        | 18,000        | -           | -                 |
| <b>Argentina</b>                            |              |               |               |               |             |                   |
| • Tierra del Fuego <sup>(4)</sup>           | 860          | 650           | 650           | 650           | 650         | 1,300             |
| <b>Office Leases</b>                        | <b>144</b>   | <b>287</b>    | <b>251</b>    | <b>104</b>    | <b>104</b>  | <b>338</b>        |
| <b>Total</b>                                | <b>2,139</b> | <b>11,400</b> | <b>13,181</b> | <b>18,904</b> | <b>926</b>  | <b>1,842</b>      |

(1) The Company acquired a 75% working interest in Fyne and Dandy and upon approval of a Field Development Plan by DECC, has agreed to pay an additional \$10 million as part of the acquisition cost of the block.

(2) Relates to Antrim's 65.5% interest in Causeway prior to the conditional sale of 30% interest to Valiant.

(3) The Company acquired two licences in the 25<sup>th</sup> bid round which include contingent drilling commitments estimated at \$27 million in 2012 and 2013. These commitments will be waived by DECC if they agree that drilling the wells would not be an appropriate use of resources. The remaining licences include committed licence fees and seismic costs to drill or drop decision.

(4) Includes drilling rig commitments of \$0.9 million.



## **Notes to Consolidated Financial Statements**

### **For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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On March 4, 2010, the Company announced that it had signed a Conditional Letter Agreement to sell a 30% interest in the UK North Sea Causeway property. The Company will receive up to \$21,750,000 contributed to the Company's remaining share of development costs of bringing the field to production start-up. Completion of the transaction is subject to several conditions including the sanction of a Field Development Plan by the UK Department of Energy and Climate Change which is anticipated in early 2011.

## **18. FINANCIAL AND CAPITAL MANAGEMENT**

The Company's objective when managing its capital is to maintain adequate levels of funding to support its exploration and development program and provide flexibility in the future development of its business. Historically the Company raised all of its capital requirements from internally generated cash flow and by the issuance of common shares and securities exchangeable for common shares. The Company's capital structure at June 30, 2010 consisted of common share capital of \$272,818,054 and a loan from Valiant of \$277,081. The Company had no bank debt at June 30, 2010.

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 has reduced the time frame in projecting its future expenditures from an annual budget to a quarterly and, where applicable, monthly forecast process. This reduction in the time horizon will allow the Company to better adapt to changing market conditions. Although the Company may need to raise additional funds from outside sources which may include a farm out of exploration and development assets, if available, in order to develop its UK properties, the Company maintains flexibility to manage financial commitments on these assets.

In July 2008, Antrim entered into an agreement with the Bank of Scotland plc for a \$50 million working capital facility. The working capital facility was available, subject to certain conditions, for pre-development costs associated with the Company's Causeway property and for the appraisal of the Fyne and Dandy fields. No amounts were drawn on this bank facility and Antrim did not renew the facility which matured on January 18, 2010.

## **19. 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-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.

## **Notes to Consolidated Financial Statements**

### **For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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The Company's financial instruments consist of cash, short-term deposits, accounts receivable, investments in interest-bearing and non-interest bearing bonds and accounts payable. Cash and short-term deposits are categorized as held-for-trading and are accounted for at fair value with the change in fair value recognized in net income during the period. Accounts receivable and investment in bonds, as described in note 8, 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 the Company's financial instruments, excluding long-term bonds, fair values approximate carrying amounts. The fair value of the long term bonds is not materially different than the carrying amount.

#### **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 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. All of the Company's oil and gas production is from one property in Argentina the majority of which is sold to three purchasers. 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, 2010, the Company has provided for an allowance for doubtful accounts which is not material.

The Company's maximum exposure to credit risk of \$31,480,709 at June 30, 2010 is equal to the carrying amount of cash, cash equivalents, accounts receivable and certain non-current assets on the Company's balance sheet on that date. These non-current assets are primarily VAT receivable and interest bearing bonds that are obligations of the Argentina government or government agencies and the non-interest bearing bond from Tripetrol Holdings Inc.

## **Notes to Consolidated Financial Statements**

### **For the Periods Ended June 30, 2010 and 2009 (unaudited)**

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#### (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 may 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.

At June 30, 2010, the Company had working capital of \$27,821,203 compared to \$31,959,752 at December 31, 2009. The contractual maturities of the Company's financial liabilities at June 30, 2010 are all less than one year.

#### (c) Market risk

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

#### (d) Commodity price risk

Currently all of the Company's oil and gas revenue is from oil and gas properties in Argentina. Oil prices in Argentina are subject to domestic market discounts, which results in prices significantly below benchmark prices. Oil exports from Argentina are subject to export taxes which effectively limit the maximum price that producers could receive for crude oil exports to \$42 per barrel, regardless of the price of WTI. The discount on domestic sales results in a similar ceiling, after quality adjustments, within the domestic market. Gas sales are based on fixed long term sales contracts of up to four years, spot sale pricing and domestic market discounted pricing. As there is currently no ability to export gas from Tierra del Fuego, the discount prices and lack of export market results in a ceiling on industrial long term and spot sales prices. Further regulatory changes to the domestic market prices or export tax regime may have an adverse impact on the Company's net revenues, cash flow and earnings.

#### (e) 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, British pounds sterling ("£") or ARS. As a result, fluctuations in the United States dollar, British pounds sterling, and Argentine peso 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.

## Notes to Consolidated Financial Statements

### For the Periods Ended June 30, 2010 and 2009 (unaudited)

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The Company's sensitivity to foreign currency exchange risk at June 30, 2010 of a possible 10% strengthening in the Canadian dollar is as follows:

|  | US \$            | £        | ARS         |
|--|------------------|----------|-------------|
|  | US \$ Equivalent |          |             |
| Increase (decrease) in loss before taxes | (38,000)         | 53,000   | -           |
| Increase (decrease) in Other             |                  |          |             |
| Comprehensive Income                     | 26,313,000       | (54,000) | (2,531,000) |

## 20. 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 the first half of 2010, the Company incurred fees of \$131,594 (2009 - \$21,421) payable to Burstall Winger LLP, a law firm in which a director of the Company is a partner.

## **DIRECTORS**

Stephen Greer  
President and Chief Executive Officer,  
Antrim Energy Inc.

Colin Maclean <sup>(2) (3)</sup>  
Independent Director

Dr. Brian Moss  
Executive Vice President, Latin America  
Antrim Energy Inc.

Dr. Gerry Orbell <sup>(1) (3)</sup>  
Chairman and Chief Executive Officer,  
Sound Oil plc

Jim Perry <sup>(1) (3)</sup>  
President, CEO and Director,  
Alternative Fuel Systems (2004) Inc.

Jim Smith <sup>(1) (2)</sup>  
Independent Director

Jay Zammit <sup>(2)</sup>  
Partner,  
Burstall winger LLP

*(1) Member of the Audit Committee*  
*(2) Member of the Compensation Committee*  
*(3) Member of Reserves Committee*

## **OFFICERS**

Stephen Greer  
President and Chief Executive Officer

Brian Moss  
Executive Vice President, Latin America

Douglas Olson  
Chief Financial Officer

Kerry Fulton  
Vice President, Operations

Terry Lederhouse  
Vice President, Commercial

Godfrey Stowe  
Vice President, United Kingdom

## **HEAD OFFICE**

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[www.antrimenergy.com](http://www.antrimenergy.com)

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

## **LONDON OFFICE**

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## **INTERNATIONAL SUBSIDIARIES**

Antrim Argentina S.A.  
Antrim Causeway (N.I.) Limited  
Antrim Energy Ltd.  
Antrim Resources (N.I.) Limited  
Netherfield Corporation

## **LEGAL COUNSEL**

Burstall Winger LLP  
Calgary, Alberta

## **BANKERS**

Bank of Scotland  
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 directed to:

CIBC Mellon Trust Company  
Calgary, Alberta

## **STOCK EXCHANGE LISTINGS**

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