



ANTRIM ENERGY INC.

Q3 2012

## INTERIM FINANCIAL REPORT – THIRD QUARTER 2012

### HIGHLIGHTS:

- Causeway first production commenced with initial gross production of approximately 4,500 bopd
- Oil discovery on Contender exploration well in October 2012
- Antrim signs Heads of Terms agreement with Teekay to lease an FPSO; Fyne development plans proceeding with targeted submission of an FDP in January 2013
- Cyclone exploration well expected to commence drilling in the fourth quarter of 2012
- Fionn Field development on track; first production anticipated for the middle of 2013
- Completed sale of Antrim Argentina to Crown Point Ventures Ltd.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") provides a detailed explanation of Antrim Energy Inc.'s (the "Company" or "Antrim") operating results for the three and nine month periods ended September 30, 2012 compared to the same periods ended September 30, 2011 and should be read in conjunction with the audited consolidated financial statements of Antrim for the year ended December 31, 2011. This MD&A has been prepared using information available up to November 12, 2012. The interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting within International Financial Reporting Standards ("IFRS"). Unless otherwise noted all amounts are reported in United States dollars.

#### Non-IFRS Measures

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

Cash flow from operations is defined as cash flow from operating activities before changes in working capital. Cash flow from operations per share is calculated as cash flow from operations divided by the weighted-average number of outstanding shares. Reconciliation of cash flow from operations to its nearest measure prescribed by IFRS is provided below.

### Calculation of Cash Flow from Operations

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
(\$000's)				
Cash flow used in (provided by) operating activities	1,612	(383)	12,167	1,902
Less: change in non-cash working capital	1,140	(1,277)	6,916	(1,012)
Cash deficiency from operations	472	894	5,251	2,914

### Overview of Continuing Operations

#### Causeway Licences

On November 12, 2012, Antrim announced that first oil production from Causeway had commenced with initial gross production of approximately 4,500 barrels of oil per day (“bopd”) on a 53% choke. Initial production rates are currently being impacted by longer than anticipated clean-up and commissioning due to the long horizontal nature of the well. The installed electric submersible pumps are anticipated to contribute to increased production rates in the first half of 2013.

The Causeway Field includes one production well with a planned water injection well to be completed in early 2013. Oil is transported by pipeline to and processed at the North Cormorant production platform operated by TAQA Britani Limited (“TAQA”) before being exported to the Sullom Voe terminal via the Brent Pipeline System for sale to BP Oil International Limited (“BP”). Antrim’s remaining development costs for its 35.5% working interest are estimated at \$19.1 million in 2012 and \$13.8 million in 2013.

As part of the sale of the 30% working interest in the Causeway Licences to Valiant Petroleum plc (“Valiant”) in October 2011, Antrim entered into a DLA giving Valiant the right to produce and sell 6.25% of Antrim’s share of oil produced, without liability for operating costs and expenses. Antrim’s share of oil produced will be reduced to 29.25% until a cumulative value of \$8.9 million of oil is received by Valiant.

Fionn Field first production is anticipated for the middle of 2013. Valiant has completed the early installation of subsea infrastructure for the development of the Fionn Field. A field development plan (“FDP”) for the Fionn Field was approved by the Department of Energy and Climate Change (“DECC”) in August 2012. Fionn Field production will be combined with the Causeway Field production and transported for processing to the North Cormorant platform. Antrim’s share of the development costs for the Fionn Field, including the pre-investment costs, is estimated to be approximately \$22 million.

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

### **Contender Licence**

On October 22, 2012, Antrim announced the discovery of oil at well 211/21-N94 (the "Contender Well") in UK Northern North Sea Licence P201 Block 211/22a Contender Area (the "Contender Block", Antrim interest 8.4%). The Contender Well was drilled to a total drilling depth of 16,903 feet (11,550 feet true vertical depth). Revised estimates indicate a net oil pay of 73 feet (true vertical), with greater than expected porosity and hydrocarbon saturation. TAQA is in the process of filing an FDP with DECC under the name 'Cormorant East.' Production would be processed through the North Cormorant platform with an anticipated start date of late 2012. Under the terms of the farm-out agreement with TAQA, 100% of the drilling, completion and tie in costs will be completely funded by TAQA. Antrim's working interest share of the completion costs and tie in will be recovered from production revenue.

### **Kerloch Licence**

With the successful drilling of the Contender exploration well, TAQA also earned a 35% working interest in the adjacent Licence P201 Block 211/22a Kerloch Area, reducing Antrim's working interest from 21% to 13.65%.

### **Fyne Licence**

On November 12, 2012, Antrim signed a Heads of Terms agreement with Hummingbird Production Limited, a subsidiary of Teekay Corporation ("Teekay") to lease the "Hummingbird Spirit" Floating Production, Storage and Offloading vessel ("FPSO") for the development of the Fyne Field. Based on the Heads of Terms, fully termed agreements will be developed, which will be subject to approval of an FDP by DECC. Antrim expects to submit the Fyne FDP to DECC for approval in January 2013. First oil would be anticipated in the fourth quarter of 2014, contingent on the timing of the redeployment of the Hummingbird Spirit from its current location.

A reserves estimate for the Fyne Field was recently updated by McDaniel and Associates Consultants Ltd. ("McDaniel"), incorporating the results of well 21/28a-11 drilled earlier this year in the East Fyne area. Proved plus Probable reserves in the Fyne Field are estimated by McDaniel as at September 30, 2012 to be 11.7 million barrels of oil.

Antrim continues to seek financing and/or joint venture partners to participate in the development of Fyne and the other Greater Fyne Area licences.

In June 2012, Antrim received approval from DECC to acquire a 39.9% working interest, associated reserves, and operatorship from Premier and an additional 25% working interest and associated reserves from First Oil at no cost. This follows notice from both Premier and First Oil of their intention to withdraw from the Fyne Licence. Antrim's increased ownership in Fyne of 100%, on execution by all parties of the final completion documents, will allow Antrim sole control over development; however, increased ownership could increase the risk that the development of Fyne will not proceed as expected.

If Antrim is to continue with the Fyne Licence, an FDP for the Fyne Field will need to be submitted ready for approval by the January 11, 2013 extended deadline. Approval of the FDP by DECC is required for Antrim to proceed with the development and first oil production by November 2014. If an FDP is not submitted ready for approval by January 11, 2013, the Fyne Licence could be revoked.

### **Greater Fyne Area Licences**

On October 2, 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c which allows the Company to relinquish the licence in its entirety. Accordingly, the Company plans to relinquish the Licence in its entirety in the fourth quarter of 2012. The Licence was a 25<sup>th</sup> round licence issued February 12, 2009 and is scheduled to expire February 12, 2013.

### **Cyclone Prospect**

Licence P1784 Block 21/7b (Antrim 30%) is located in the Central North Sea, north of the Greater Fyne Area. The block contains the "Cyclone" and the "Typhoon" Tertiary Cromarty prospects at approximately 5,000 and 5,600 feet respectively. The licence was acquired jointly with Premier (70%, operator) with a firm well commitment. The joint venture partners have approved an exploration well on the Cyclone prospect and signed a contract for use of a semi-submersible drilling rig to drill the well. Drilling is anticipated to start in the fourth quarter of 2012.

### **Ireland**

In 2011, Antrim was awarded a Frontier Licence Option by the Department of Communications, Energy and Natural Resources of Ireland, under the Irish 2011 Atlantic Margin Licensing Round. The Licence option area covers Blocks 44/4, 44/5 (part), 44/9, 44/10, 44/14, 44/15, an area of approximately 1,409 square km located in the Porcupine Basin approximately 110 km off the southwest coast of Ireland. The option allows Antrim two years to qualify the blocks for a full Exploration Licence. Antrim has licenced 2D seismic and is currently reprocessing and interpreting the data which will continue into early 2013.

## **Tanzania**

Antrim holds an option to acquire a 20% interest in the production sharing agreement for the Pemba-Zanzibar exploration licence offshore and onshore Tanzania (the “P-Z PSA”) following the pre-drilling (seismic) phase and an additional 10% interest to be exercised up to 180 days following receipt of the initial drilling results. Should Antrim exercise the initial option, costs for the seismic phase associated with Antrim’s acquired interests would be repaid from future production. RAK Gas, the operator, has submitted a proposal for a revised work programme to the federal government of Tanzania. Environmental impact assessment work has commenced, with seismic operations expected to proceed in the near future.

On October 29, 2012, an announcement was made of an agreement between the federal government of Tanzania and the government of Zanzibar on the sharing of any future hydrocarbon revenues, potentially ending a moratorium which has long-delayed exploration projects. The agreement has still to be ratified by cabinet and final details are still to be agreed. It is not yet known what, if any, impact this agreement will have on the P-Z PSA.

## Financial Discussion of Continuing Operations (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
<u>Financial Results (\$000's except per share amounts)</u>				
Cash deficiency from operations <sup>(1)</sup> – continuing operations	472	894	5,251	2,914
Cash deficiency from operations per share <sup>(1)</sup>	0.00	0.00	0.03	0.02
Net loss – continuing operations	5,240	36,800	67,704	39,749
Net loss	5,396	36,281	67,389	38,178
Net loss per share – basic, continuing operations	0.03	0.20	0.37	0.23
Total assets	148,338	247,259	148,338	247,259
Working capital	21,013	52,674	21,013	52,674
Capital expenditures	21,526	2,093	36,263	4,483
Bank debt	-	-	-	-
<u>Common shares outstanding (000's)</u>				
End of period	184,731	184,103	184,731	184,103
Weighted average – basic	184,433	184,100	184,273	170,590
Weighted average – diluted	185,450	185,419	185,519	172,004

(1) Cash flow from operations and cash flow from operations per share are Non-IFRS Measures. Refer to “Non-IFRS Measures” in Management’s Discussion and Analysis.

### Revenue

The Company did not have any revenue from continuing operations for the three and nine month periods ended September 30, 2012 and 2011.

### General and Administrative

General and administrative (“G&A”) costs increased to \$4.3 million for the nine months of 2012 compared to \$3.5 million for the same period in 2011. The increase in G&A is primarily due to employee compensation. In the nine month period of 2012, Antrim capitalized \$0.5 million (2011 – \$0.4 million) of G&A costs.

G&A costs remained consistent at \$1.2 million for the three month period ended September 30, 2012 compared to the same period in 2011.

### Exploration & Evaluation Expenditures

Exploration and evaluation (“E&E”) expenditures increased to \$1.3 million for the first nine months of 2012 compared to \$0.2 million for the same period in 2011. E&E expenditures increased to \$1.2 million for the three month period ended September 30, 2012 compared to \$26 thousand for the same period in 2011. The increase in E&E expenditures is primarily related to the on-going work on the development plan for the Fyne Licence.

## **Impairment**

On October 2, 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c and allowed the Company to relinquish the licence in its entirety. The Company recognized a \$2.3 million impairment charge in the third quarter of 2012 representing the full carrying value relating to this licence.

In addition to the Licence P1563 Blocks 21/28b & 21/29c impairment, the Company recorded impairment charges of \$54.7 million, consisting of \$60.1 million for the Fyne Licence, \$1.6 million on the drilling of the Erne discovery well and sidetrack, netted against \$7.0 million in the change in fair value of the contingent consideration associated with the acquisition of the Fyne Licence in the first and second quarters of 2012. The impaired costs relating to the Erne well and sidetrack are in addition to the \$10.3 million impaired for the year ended December 31, 2011.

## **Discontinued Operations**

On May 28, 2012, Antrim completed the sale of Antrim Argentina S.A., to Crown Point Ventures Ltd. (“Crown Point”). Under the terms of the Arrangement, the Company received a cash payment of Cdn \$9.2 million (net of adjustments of Cdn \$1.0 million) and 35,761,290 common shares of Crown Point (“Crown Point Shares”). The Crown Point Shares were distributed to Antrim’s shareholders in accordance with the Arrangement on June 7, 2012 (the “Distribution Date”). As a result of the sale, the Company recognized a gain on the disposal of the Argentina assets of \$5.9 million and income from discontinued operations of \$0.3 million (2011 - \$1.6 million) for the nine month period ended September 30, 2012.

The financial and operating results for discontinued operations for the three and nine month periods ended September 30, 2012 include only the results up to May 28, 2012, the date of sale of the Argentina operations, and are no longer comparable with the 2011 results. These results are discussed in further detail in Antrim’s MD&A for the quarters ended June 30, 2012 and March 31, 2012 and for the year ended December 31, 2011.

## **Reduction in the Fair Value of Financial Assets**

On the Distribution Date, the closing price of the Crown Point Shares on the TSX Venture Exchange was Cdn \$0.51 which had decreased from the May 28, 2012 closing share price of Cdn \$0.80. This reduction in the share price of the Crown Point Shares resulted in the Company recognizing a capital loss on the Crown Point Shares of \$10.0 million. This amount has been recognized on the consolidated statement of comprehensive loss as a reduction in the fair value of financial assets.

## **Finance Income**

Finance income relates to interest income on short-term deposits and was \$0.3 million (2011 - \$0.6 million) for the nine month period ended September 30, 2012. Finance income was \$0.1 million (2011 - \$0.2 million) for the three month period ended September 30, 2012.

## **Finance Costs**

Finance costs were \$0.2 million for the nine month period ended September 30, 2012 (2011 - \$0.4 million) and relate to accretion of asset retirement obligations, interest expense and bank charges.

## **Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The Company did not pay or recover any taxes during the nine months ended September 30, 2012 (2011 – nil).

The Company follows the liability method of accounting for income taxes. As at September 30, 2012, no deferred income tax assets were recorded due to uncertainty with respect to the ability of Antrim to generate sufficient taxable income to utilize the unrecognized losses.

## **Cash Flow and Net Loss**

In the three month period ended September 30, 2012, Antrim incurred a cash deficiency from operations of \$0.5 million (\$0.00 per share) compared to a cash deficiency from operations of \$0.9 million (\$0.00 per share) in the same period in 2011. The cash deficiency decreased in 2012, as compared to 2011, due to foreign exchange losses.

In the nine month period ended September 30, 2012, Antrim incurred a cash deficiency from operations of \$5.3 million (\$0.03 per share) compared to a cash deficiency from operations of \$2.9 million (\$0.02 per share) in the same period of 2011. The cash deficiency increased in 2012, as compared to 2011, due to higher G&A expenses, E&E expenditures and foreign exchange losses.

For the three months ended September 30, 2012, Antrim incurred a net loss from continuing operations of \$5.2 million compared to a net loss from continuing operations of \$36.8 million in 2011. The net loss decreased due to impairment charges recognized in 2011 due to the sale of the 30% interest in Causeway.

For the nine months ended September 30, 2012, the company incurred a net loss from continuing operations of \$67.7 million compared to \$39.7 million in the same period of 2011. The net loss increased because of impairment charges, the reduction in the fair value of financial assets, higher E&E expenditures, partially offset by a gain in the disposal of the Argentina operations.

## **Capital Expenditures**

Antrim incurred capital expenditures of \$36.3 million and \$4.5 million for the nine month periods ended September 30, 2012 and 2011, respectively. Capital expenditures in 2012 primarily relate to ongoing development costs of the Causeway Licence of \$31.5 million, exploration costs related to Cyclone of \$0.9 million, and \$1.6 million for the drilling of the Erne well.



## **Foreign Exchange and Comprehensive Income**

The measurement currency of the Company is the Canadian dollar, while its reporting currency is the US dollar. A significant portion of the Company's activities are transacted in or referenced to US dollars, Canadian dollars or British pounds sterling. The Company's operating costs and certain of the Company's payments in order to maintain property 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, and US dollar could result in unanticipated fluctuations in the Company's financial results.

The Company recognized an other comprehensive loss of \$10.5 million for the nine month period ended September 30, 2012, compared to other comprehensive income of \$2.7 million in the same period in 2011 related to foreign currency translation adjustments.

The Company incurred a gain of \$3.2 million in accumulated other comprehensive income related to discontinued operations for the nine month period ended September 30, 2012.

## **Financial Resources and Liquidity**

As at September 30, 2012, Antrim had working capital of \$21.0 million. Accounts payable and accrued liabilities decreased to \$6.3 million at September 30, 2012 from \$17.2 million as at December 31, 2011 due to the completion of the Erne drilling program, offset by costs incurred on the Causeway development program. The Company has no bank debt.

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

With continued uncertainty in the global economy and financial markets, the 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 projects its future expenditures on a quarterly and, where applicable, on a monthly basis to enable Antrim to better adapt to changing market conditions. Although Antrim may need to raise additional funds from internal or external sources, if available, in order to develop its UK properties, the Company maintains flexibility to manage its financial commitments.

Antrim's planned capital program for 2012 includes ongoing development of the Causeway Field, the Cyclone exploration well, and the pre-FDP Fyne Licence development costs. These capital expenditures will be funded by existing cash resources and through cash generated from production at Causeway.

## Contractual Obligations, Commitments and Contingencies

Antrim has several commitments in respect of its petroleum and natural gas properties and operating leases as at September 30, 2012 as follows:

(\$000's)	2012	2013	2014	2015	2016	Thereafter
<b>United Kingdom</b>						
• Causeway <sup>(1)</sup>	19,061	13,802	145	170	196	222
• Cyclone <sup>(2)</sup>	6,212	12	6,212	-	-	-
• Fyne and Dandy <sup>(3)</sup>	283	10,033	33	33	33	33
• 25th Bid Round <sup>(4)</sup>	3,036	38,000	-	-	-	-
• 26th Bid Round	-	13	13	-	-	-
<b>Ireland</b>	184	69	-	-	-	-
<b>Office leases</b>	201	361	363	376	376	383
<b>Total</b>	<b>28,977</b>	<b>62,290</b>	<b>6,766</b>	<b>579</b>	<b>605</b>	<b>638</b>

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

(2) Relates to the well planned for the Cyclone prospect and the remaining contingent drilling commitment on the Typhoon prospect. Both wells are estimated at \$6.2 million.

(3) The Company agreed to pay an additional \$10 million as part of the acquisition of the Fyne Licence, upon approval of an FDP by DECC. This amount has been recorded at estimated fair value of \$nil on the consolidated balance sheet as contingent consideration (See Note 7 to the interim consolidated financial statements).

(4) The Company acquired two licences in the 25<sup>th</sup> bid round which each include a contingent drilling commitment as at September 30, 2012. In October 2012, DECC waived all commitments related to the Licence P1563 Blocks 21/28b & 21/29c (estimated at \$17 million). Once the licence has been relinquished, the Company will have one remaining contingent drilling commitment (estimated at \$24 million).

Under the terms of the Fionn Field Supplementary Agreement with Valiant, Antrim's share of the Fionn pre-investment costs are being paid by Valiant. Antrim has the option for three months following first oil production from the Causeway Field to opt out of participating in the Fionn Field development and sell its 35.5% working interest share to Valiant for the cost of its 35.5% working share of the Fionn pre-investment costs, or to confirm its continued participation by repaying its share of the Fionn pre-investment costs plus interest. If Antrim elects to opt in on the Fionn Field development Antrim's share of the development costs, including the pre-investment costs, is estimated to be approximately \$22 million in 2013, which is not included in the preceding table.

In 2011, the Company entered into a variation to an existing contract for drilling management services in the UK North Sea which required the drilling of two wells, estimated to take 50 days in a letter of intent preceding the contract variation. The Company contends that it met its contractual obligations under this variation through the drilling of the Erne pilot well (21/29d-11) and the Erne sidetrack well (21/29d-11Z). The drilling of these two wells took place over a period of 58 days. Subsequent to releasing the rig, the Company received an invoice from the drilling management services contractor charging the Company for approximately \$5 million in additional costs as the contractor claims all conditions of the contract had not yet been satisfied. In July 2012, the drilling management services contractor filed a claim against the Company for the additional invoice costs plus interest and lost management time, in the High Court of England and Wales. In August 2012, the Company filed a defence against this claim in the High Court of England and Wales. The Company is disputing the

additional costs and believes it is more likely than not that it will not have to pay. As a result, a contingent liability has not been recorded.

### **Subsequent events**

On October 2, 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c which allows the Company to relinquish the licence in its entirety.

On October 22, 2012, Antrim announced the results of drilling operations from the Contender Well. With the successful drilling of the Contender exploration well, TAQA also earned a 35% working interest in the adjacent Licence P201 Block 211/22a Kerloch Area, reducing Antrim's working interest from 21% to 13.65%.

On November 12, 2012, Antrim announced that first production from Causeway had commenced with gross production rates of approximately 4,500 bopd.

On November 12, 2012, Antrim signed a Heads of Terms agreement with Teekay to lease the Hummingbird Spirit for the development of the Fyne Field.

### **Outlook**

Production from Causeway has started with initial gross production of approximately 4,500 bopd. The installed electronic submersible pumps are anticipated to contribute to increased production rates in the first half of 2013. A planned water injection well is to be completed in early 2013. Development of the Fionn Field is proceeding with production startup expected in the middle of 2013.

On October 22, 2012, Antrim announced the successful oil discovery at Contender. TAQA is in the process of filing an FDP with DECC under the name 'Cormorant East.' Production would be processed through the North Cormorant platform with an anticipated start date of late 2012.

A well is expected to be drilled in the fourth quarter of 2012 to test the Cyclone prospect in Block 21/7b.

Antrim is actively pursuing a development plan for the Fyne Licence. The review includes an evaluation of the costs and time requirements for the engineering design process, fabrication, deployment and hook up, the ability to attract additional partners into the licence including a recognized production operator, the availability of third party financing to fund the company's share of the project costs, and the probability of delivering first production before the November 2014 extension deadline.

Antrim will continue studies on the blocks covered by the Frontier Licence Options awarded to the Company in the Irish 2011 Atlantic Margin Licensing Round. Antrim has licenced 2D seismic and is currently reprocessing and interpreting the data.

## Summary of Quarterly Results

(\$000, except per share amounts)	<b>Oil, Natural Gas and NGL Revenue, Net of Royalties</b>	<b>Cash Flow from Operations (Deficiency)</b>	<b>Net Loss</b>	<b>Net Loss Per Share – Basic</b>
<b>2012</b>				
Third quarter <sup>1</sup>	-	(472)	5,240	0.03
Second quarter <sup>1</sup>	-	(3,177)	6,373	0.03
First quarter <sup>1</sup>	-	(1,601)	56,091	0.30
<b>2011</b>				
Fourth quarter <sup>1</sup>	-	(833)	15,361	0.11
Third quarter <sup>1</sup>	-	(894)	36,800	0.20
Second quarter <sup>1</sup>	-	(1,215)	1,503	0.01
First quarter <sup>1</sup>	-	(805)	1,445	0.01
<b>2010</b>				
Fourth quarter	2,260	(1,767)	2,112	0.02

1. Quarterly results reflect continuing operations only

Key factors relating to the comparison of net loss for the last eight quarters are as follows:

- In the third quarter of 2012, the Company recognized a \$2.3 million impairment charge related to the planned relinquishment of Licence P1563 Blocks 21/28b & 21/29c;
- The second quarter 2012 net loss was impacted by a \$10 million reduction in the fair value of the Crown Point shares partially offset by a \$5.9 million gain on the disposal of the Argentina assets;
- During the first quarter of 2012, net loss was negatively impacted by \$54.7 million in impairment costs related to the Fyne Licence and the Erne well and sidetrack;
- In the fourth quarter of 2011, the Company recognized an impairment charge of \$10.3 million related to the Erne discovery well 21/29d-11 and sidetrack 21/29d-11Z.
- During the third quarter of 2011, the Company recognized an impairment charge of \$35.6 million due to the sale of the 30% interest in Causeway.

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

Antrim has established disclosure controls, procedures and corporate policies so that its consolidated financial results are presented accurately, fairly and on a timely basis. The Chief Executive Officer and Chief Financial Officer have designed or have caused such internal controls over financial reporting to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with IFRS. The Company tested and evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting as at December 31, 2011. During this evaluation the Corporation identified weaknesses due to the limited number of finance and accounting personnel at the Corporation dealing with complex and non-routine accounting transactions that may arise.

There were no changes in the Company's internal controls over financial reporting that occurred during the first nine months of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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

## **Risks and Uncertainties**

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

The original Fyne Licence expired on November 25, 2011. DECC agreed to a three-year extension to November 25, 2014 on the condition that an FDP for the Fyne Field be submitted by June 25, 2012. In May 2012, DECC agreed to a further extension to January 11, 2013 conditional on the approval of a final FDP, first production by November 25, 2014, funding commitments and meeting DECC's requirements for production operatorship, decommissioning security and financial capacity. If DECC approval of an FDP is not obtained by January 11, 2013 for the Fyne Field, potential consequences to Antrim could include the expiry of the Fyne Licence in accordance with its terms.

First production must be achieved from any of the three identified Prospective Areas (Fyne Field, Dandy Field and Area 4 Field) by November 25, 2014 for that Prospective Area to become a Producing Area and the licence to continue. If first production is not achieved in a Prospective Area by November 25, 2014, the licence relative to that Prospective Area will expire. Although the Company plans to obtain approval of a Fyne Field FDP by January 11, 2013 and to achieve first production by November 25, 2014, there is no assurance that the Company will be successful in doing so. Antrim's increased ownership in Fyne will allow Antrim sole control over development and

seeking partners for development; however, there is a risk that Antrim will not increase its ownership in the Fyne Field if, for any reason, the final completion documents are not executed by all parties. The increased ownership could also increase the risk that the development of Fyne will not proceed as expected. Successful development of the Fyne Field to first oil production will require capital expenditures for which funding may be obtained through additional debt or equity financing (as discussed below) or through the entering into of new agreements with one or more joint venture partners. There can be no assurance that the Company will obtain debt or equity financing for development of the Fyne Field or that the Company will enter into new agreements with one or more joint venture partners to develop the Fyne Field.

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

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

Further discussions regarding the Company's risks and uncertainties, can be found in the Company's amended and restated Annual Information Form dated March 26, 2012 which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

document incorporated by reference herein and Antrim does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

In particular, this MD&A and any documents incorporated by reference herein, contain specific forward-looking statements and information pertaining to the 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 Antrim’s plans for the developing of its Fyne property, including anticipated timing thereof, future drilling plans with respect to Contender and Cyclone, expected production rates for Causeway, anticipated first production date and development plans for Fionn, 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.

With respect to forward-looking statements contained in this MD&A and any documents incorporated by reference herein, Antrim has made assumptions regarding Antrim's ability to obtain additional drilling rigs and other equipment in a timely manner, obtain regulatory approvals (including in respect of the Fyne FDP), future oil and natural gas production levels from Antrim's properties and the price obtained from the sales of such production, the level of future capital expenditure required to exploit and develop reserves, the ability of Antrim’s partners to meet their commitments as they relate to the Company and Antrim’s reliance on industry partners for the development of some of its properties, Antrim’s ability to 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 such as the risk that drilling operations may not be successful, unanticipated delays with respect to the development of Antrim’s properties, 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 (including the development of its Fyne property), Antrim’s reliance on industry partners for the development of some of its properties, risks associated with ensuring title to the Company’s properties, liabilities and unexpected events inherent in oil and gas operations, including geological, technical, drilling and processing problems, the 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, Fionn and Fyne Fields in the UK North Sea. Additional risks include the ability to effectively compete for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel, incorrect assessments of the value of acquisitions, Antrim's success at acquisition, exploitation and development of reserves, changes in general economic, market and business conditions in Canada, North America, the United Kingdom,

Europe and worldwide, actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws, royalty rates and incentive programs relating to the oil and gas industry and more specifically, changes in environmental or other legislation applicable to Antrim's operations, and Antrim's ability to comply with current and future environmental and other laws, adverse regulatory rulings, order and decisions and risks associated with the nature of the Common Shares.

Many of these risk factors, other specific risks, uncertainties and material assumptions are discussed in further detail throughout the MD&A and in Antrim's management discussion and analysis for the year ended December 31, 2011. 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. Mr. Fulton has over 30 years operating experience in the upstream oil and gas industry.



**Antrim Energy Inc.**  
**Consolidated Balance Sheet**  
**As at September 30, 2012 and December 31, 2011 (unaudited)**  
**(Amounts in US\$ thousands)**

	Note	September 30 2012	December 31 2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents		25,372	47,105
Restricted cash		404	17,249
Accounts receivable		425	5,294
Prepaid expenses		1,091	240
Assets held for sale	3	-	31,651
		27,292	101,539
<b>Property, plant and equipment</b>	4	51,903	15,207
<b>Exploration and evaluation assets</b>	5	69,143	122,431
		148,338	239,177
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		6,279	17,214
Liabilities held for sale	3	-	4,180
		6,279	21,394
<b>Asset retirement obligations</b>	6	8,534	3,595
<b>Contingent consideration</b>	7	-	7,000
		14,813	31,989
<b>Commitments and contingencies</b>	12		
<b>Subsequent events</b>	14		
<b>Shareholders' equity</b>			
<b>Share capital</b>		361,922	361,587
<b>Contributed surplus</b>		20,157	19,579
<b>Accumulated other comprehensive income (loss)</b>		4,499	(5,971)
<b>Deficit</b>		(253,053)	(168,007)
		133,525	207,188
		148,338	239,177

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

**Antrim Energy Inc.**  
**Consolidated Statement of Comprehensive Loss**  
**For the three and nine months ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except per share data)**

		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30</b>		<b>September 30</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		-	-	-	-
<b>Expenses</b>					
General and administrative expenses		1,225	1,243	4,250	3,462
Depreciation		24	55	70	138
Share-based compensation	8	430	187	613	697
Exploration and evaluation expenditures		1,185	26	1,312	247
Impairment	5, 7	2,304	35,605	57,004	35,605
Reduction in the fair value of financial assets	3	-	-	10,040	-
Gain on disposal of Argentina assets	3	-	-	(5,894)	-
		<u>5,168</u>	<u>37,116</u>	<u>67,395</u>	<u>40,149</u>
Finance income		(94)	(238)	(302)	(614)
Finance costs		40	174	182	392
Foreign exchange loss (gain)		126	(252)	429	(178)
<b>Loss from continuing operations before income taxes</b>		<u>5,240</u>	<u>36,800</u>	<u>67,704</u>	<u>39,749</u>
Income tax expense		-	-	-	-
<b>Loss from continuing operations after income taxes</b>		<u>5,240</u>	<u>36,800</u>	<u>67,704</u>	<u>39,749</u>
<b>Loss (income) from discontinued operations</b>	3	<u>156</u>	<u>(519)</u>	<u>(315)</u>	<u>(1,571)</u>
<b>Net loss for the period</b>		<u>5,396</u>	<u>36,281</u>	<u>67,389</u>	<u>38,178</u>
<b>Other comprehensive loss (income)</b>					
Foreign currency translation adjustment		5,193	(8,796)	13,683	(2,651)
Foreign currency translation adjustment – disposal of assets	3	-	-	(3,213)	-
<b>Other comprehensive loss (income) for the period</b>		<u>5,193</u>	<u>(8,796)</u>	<u>10,470</u>	<u>(2,651)</u>
<b>Comprehensive loss for the period</b>		<u>10,589</u>	<u>27,485</u>	<u>77,859</u>	<u>35,527</u>
<b>Net loss (income) per common share</b>					
Basic & diluted – continuing operations	9	0.03	0.20	0.37	0.23
Basic & diluted – discontinued operations	9	0.00	(0.00)	(0.00)	(0.01)

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

**Antrim Energy Inc.**  
**Consolidated Statement of Cash Flows**  
**For the three and nine months ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands)**

		Three Months Ended		Nine Months Ended	
		September 30		September 30	
	Note	2012	2011	2012	2011
<b>Operating Activities</b>					
Loss from continuing operations after income taxes		5,240	36,800	67,704	39,749
Items not involving cash:					
Depreciation		24	55	70	138
Share-based compensation	8	430	187	613	697
Accretion of asset retirement obligations	6	22	61	96	181
Foreign exchange loss (gain)		1,988	(2)	524	214
Impairment	5, 7	2,304	35,605	57,004	35,605
Reduction in the fair value of financial assets	3	-	-	10,040	-
Gain on disposal of Argentina assets	3	-	-	(5,894)	-
		(472)	(894)	(5,251)	(2,914)
Changes in non-cash working capital items – continuing operations	10	(1,140)	1,277	(6,916)	1,012
Cash (used in) provided by operating activities – continuing operations		(1,612)	383	(12,167)	(1,902)
Cash (used in) provided by operating activities – discontinued operations	3	(156)	233	(365)	4,378
<b>Cash (used in) provided by operating activities</b>		<b>(1,768)</b>	<b>616</b>	<b>(12,532)</b>	<b>2,476</b>
<b>Financing Activities</b>					
Issue of common shares		116	31	186	52,421
Share issue expenses		-	-	-	(2,999)
<b>Cash provided by financing activities</b>		<b>116</b>	<b>31</b>	<b>186</b>	<b>49,422</b>
<b>Investing Activities</b>					
Capital expenditures		(21,526)	(2,093)	(36,263)	(4,483)
Restricted cash		(404)	(20,266)	16,845	(20,266)
Cash proceeds from the disposal of Argentina assets	3	-	-	9,976	-
Cash used in investing activities – continuing operations		(21,930)	(22,359)	(9,442)	(24,749)
Cash used in investing activities – discontinued operations	3	-	(280)	(1,121)	(2,076)
<b>Cash used in investing activities</b>		<b>(21,930)</b>	<b>(22,639)</b>	<b>(10,563)</b>	<b>(26,825)</b>
Effects of foreign exchange on cash and cash equivalents		1,380	(3,091)	1,176	(2,384)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(22,202)</b>	<b>(25,083)</b>	<b>(21,733)</b>	<b>22,689</b>
<b>Cash and cash equivalents – beginning of period</b>		<b>47,574</b>	<b>73,422</b>	<b>47,105</b>	<b>25,650</b>
<b>Cash and cash equivalents – end of period</b>	10	<b>25,372</b>	<b>48,339</b>	<b>25,372</b>	<b>48,339</b>
Interest received		94	238	302	614
Interest paid		10	10	60	98

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

**Antrim Energy Inc.**  
**Consolidated Statement of Changes in Equity**  
**For the nine months ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands)**

	Number of common shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total
Note						
<b>Balance, December 31, 2010</b>	<b>135,571,542</b>	<b>312,062</b>	<b>18,377</b>	<b>(4,119)</b>	<b>(115,037)</b>	<b>211,283</b>
Net loss for the period	-	-	-	-	(38,178)	(38,178)
Other comprehensive income	-	-	-	(2,651)	-	(2,651)
Issuance of common shares	48,191,700	52,297	-	-	-	52,297
Share issuance costs	-	(2,999)	-	-	-	(2,999)
Share-based compensation	8	-	1,021	-	-	1,021
Stock options exercised	339,503	208	(84)	-	-	124
<b>Balance, September 30, 2011</b>	<b>184,102,745</b>	<b>361,568</b>	<b>19,314</b>	<b>(6,770)</b>	<b>(153,215)</b>	<b>220,897</b>
<b>Balance, December 31, 2011</b>	<b>184,116,078</b>	<b>361,587</b>	<b>19,579</b>	<b>(5,971)</b>	<b>(168,007)</b>	<b>207,188</b>
Net loss for the period	-	-	-	-	(67,389)	(67,389)
Capital distribution	3	-	-	-	(17,657)	(17,657)
Other comprehensive income	-	-	-	10,470	-	10,470
Share-based compensation	8	-	727	-	-	727
Stock options exercised	614,998	335	(149)	-	-	186
<b>Balance, September 30, 2012</b>	<b>184,731,076</b>	<b>361,922</b>	<b>20,157</b>	<b>4,499</b>	<b>(253,053)</b>	<b>133,525</b>

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

# Notes to Consolidated Financial Statements

## For the periods ended September 30, 2012 and 2011 (unaudited)

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

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### 1) Nature of operations

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

### 2) Basis of presentation

#### a) Statement of compliance

These interim consolidated financial statements for the nine months ended September 30, 2012 have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*, and have been prepared following the same accounting policies as the annual consolidated financial statements for the year ended December 31, 2011. The interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at November 12, 2012, the date the Board of Directors approved the interim consolidated financial statements.

#### b) Presentation currency

In these interim consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States (“US”) dollars. Antrim’s functional currency is Canadian dollars; however, the Company has adopted the US dollar as its presentation currency to facilitate a more direct comparison to North American oil and gas companies with international operations.

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

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

Significant estimates and judgments used in the preparation of the financial statements are described in the Company’s consolidated annual financial statements for the year ended December 31, 2011.

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

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**3) Discontinued operations**

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

On May 28, 2012, Antrim completed the sale of Antrim Argentina S.A., to Crown Point. Under the terms of the Arrangement, the Company received a cash payment of \$9,976 (Cdn \$10,262) and 35,761,290 Crown Point Shares. The actual cash payment received was netted against adjustments of \$1,015 (Cdn \$1,016) which have been recognized as sale transaction costs. These sale transaction costs, along with costs of \$715 incurred by the Company, have been offset against (loss) income from discontinued operations.

Details of the disposition are as follows:

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

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

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

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

The three and nine month periods ended September 30, 2012 discontinued financial and operating results include only those results up to May 28, 2012 (the date of sale of the Argentina operations).

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Discontinued operations</b>				
Revenue, net of royalties	-	2,403	4,764	7,517
Direct production and operating expenditures	-	1,169	1,906	3,510
Depletion and depreciation	-	899	147	2,842
General and administrative expenses	-	305	768	938
Sale transaction costs	156	-	1,886	-
Exploration and evaluation expenditures	-	16	26	37
Other income	-	(543)	(935)	(1,583)
Export taxes	-	91	88	195
Write down of non-current assets	-	-	568	-
Finance income	-	(99)	(88)	(270)
Finance costs	-	50	130	280
Foreign exchange gain	-	(4)	(47)	(3)
<b>(Loss) income from discontinued operations</b>	<b>(156)</b>	<b>519</b>	<b>315</b>	<b>1,571</b>

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Cash flow from discontinued operations</b>				
Net cash flow (used in) provided by operating activities	(156)	233	(365)	4,378
Net cash flow used in investing activities	-	(280)	(1,121)	(2,076)
Net cash flow (used in) provided by discontinued operations	(156)	(47)	(1,486)	2,302

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

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**4) Property, plant and equipment**

	<b>September 30 2012</b>	<b>December 31 2011</b>
Opening balance	15,207	26,129
Additions	35,525	2,161
Depreciation	(70)	(199)
Depletion and depreciation relating to assets held for sale	-	(4,004)
Changes in ARO estimate	(265)	370
Impairment	-	(3,184)
Transferred from exploration and evaluation assets	-	15,005
Reclassified to assets held for sale	-	(19,536)
Foreign currency translation	1,506	(1,535)
Closing balance	<u>51,903</u>	<u>15,207</u>

During the period, the Company capitalized \$64 (2011 - \$20) of general and administrative and \$20 (2011 - \$17) of share-based compensation related to development activity.

**5) Exploration and evaluation assets**

	<b>September 30 2012</b>	<b>December 31 2011</b>
Opening balance	122,431	171,850
Additions	4,717	38,494
Changes in ARO estimate	849	(288)
Disposals	-	(22,035)
Impairment	(64,004)	(45,917)
Transferred to property, plant and equipment	-	(15,005)
Reclassified to assets held for sale	-	(608)
Foreign currency translation	5,150	(4,060)
Closing balance	<u>69,143</u>	<u>122,431</u>

During the period, the Company capitalized \$391 (2011 - \$400) of general and administrative costs and \$94 (2011 - \$307) of share-based compensation related to exploration and evaluation activity.

On October 2, 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c which allows the Company to relinquish the licence in its entirety. The Company recognized a \$2,304 impairment charge in the third quarter of 2012 representing the full carrying value relating to this licence.



**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

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As at March 31, 2012, in accordance with IFRS, management performed an impairment assessment on the carrying value of the Fyne Licence cash-generating unit (“CGU”) as there were indications that the recoverable value may be impaired. The facts and circumstances considered included the abandonment of the East Fyne appraisal well, the expectation that the gross Fyne Field reserves would likely decline by approximately 36%, the withdrawal of Premier Oil UK Limited (“Premier”) and First Oil Expro Limited (“First Oil”) from the Joint Operating Agreement (“JOA”), the risk that Antrim may not obtain approval of a Field Development Plan (“FDP”) from the UK Department of Energy and Climate Change (“DECC”), the risk of Antrim not finding partners, and the challenge in securing funding for the project in a difficult market. In light of these events, management determined that the carrying value of the Fyne Licence CGU was impaired. The carrying value of the Fyne Licence was written down 100% to a \$nil value with the Company incurring a \$60,112 impairment charge in the first quarter of 2012. If Antrim is able to proceed with developing the Fyne Licence, the impairment charge may be reversed. Costs incurred subsequent to March 31, 2012 relating to this licence have been recorded within exploration and evaluation expenditures on the statement of comprehensive loss.

During the first quarter of 2012, the Company recognized an impairment charge of \$1,588 relating to its Erne discovery well 21/29d-11 and the sidetrack well, 21/29d-11Z. Post-well analysis of these two wells by the Company’s independent reserve evaluation engineers did not result in any reserves being assigned at this time. As the carrying value of the asset is not expected to be recovered from future production, an impairment charge was recognized. The impairment charge is in addition to the impairment of \$10,312 recognized in the fourth quarter of 2011.

**6) Asset retirement obligations**

	<b>September 30 2012</b>	<b>December 31 2011</b>
Opening balance	3,595	7,380
Additions	3,979	579
Accretion	96	209
Accretion relating to assets held for sale	-	30
Change in estimate	584	82
Dispositions	-	(1,561)
Reclassified to liabilities held for sale	-	(2,529)
Foreign currency translation	280	(595)
Closing balance	<u>8,534</u>	<u>3,595</u>

At September 30, 2012, the estimated undiscounted asset retirement obligations are \$9,381 (December 31, 2011 - \$5,794). The Company expects the undiscounted obligations to be payable between 2014 and 2020. The present value of the asset retirement obligations has been calculated using a risk-free interest rate of 1.7% (December 31, 2011 – 3.8%) and an inflation rate of 2.0% (December 31, 2011 – 2.0%).

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

**7) Contingent consideration**

	<b>September 30 2012</b>	<b>December 31 2011</b>
Opening balance	7,000	8,000
Revision to estimate	(7,000)	(1,000)
Closing balance	-	7,000

The contingent consideration on the acquisition of the Fyne Field is payable to the seller upon approval of an FDP by DECC. The amount of the future payment that the Company could be required to make under this arrangement is \$10,000. As at March 31, 2012, a fair value of \$nil for the contingent consideration was determined based on the impairment assessment performed with respect to the Fyne Licence (See Note 5). The change to the fair value has been netted against the impairment balance on the consolidated statement of comprehensive loss.

**8) Share-based compensation**

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

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

	<b>2012</b>		<b>2011</b>	
	<b># of Options</b>	<b>Weighted average exercise price Cdn \$</b>	<b># of Options</b>	<b>Weighted average exercise price Cdn \$</b>
Outstanding at January 1	9,168,063	2.12	13,247,898	2.22
Granted	6,985,000	0.60	-	-
Forfeited/expired	(2,738,000)	3.18	(2,870,332)	2.31
Exercised	(614,998)	0.30	(339,503)	0.36
Outstanding at September 30	12,800,065	1.14	10,038,063	2.25

Share-based compensation for the nine months ended September 30, 2012 was \$727 (2011 – \$1,021) of which \$613 (2011 – \$697) was expensed and \$114 (2011 – \$324) was capitalized.

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

On July 26, 2012, as a result of the completion of the Arrangement for the sale of Antrim Argentina S.A. and in accordance with the terms of the Company's stock option plan, the Company received all necessary approvals to make a four cent reduction to the exercise price of the Antrim options outstanding at the time of the Arrangement, so that Antrim option plan participants were neither favoured nor penalized by the impact of the reduction of stated capital of Antrim's common shares. The modification of the exercise price resulted in an increase of \$51 on the fair value of the stock options outstanding. This incremental fair value has been recognized in share-based compensation.

**9) Earnings per share**

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Loss used in the calculation from continuing operations	5,240	36,800	67,704	39,749
Loss (income) used in the calculation from discontinued operations	156	(519)	(315)	(1,571)
Net loss for the period	5,396	36,281	67,389	38,178

**Basic earnings per share was calculated as follows:**

Weighted average number of common shares:				
Issued common shares	184,316,078	184,043,678	184,116,078	135,571,542
Effect of share options exercised	116,579	56,088	156,932	191,977
Effect of shares issued	-	-	-	34,826,460
Weighted average number of common shares – basic	184,432,657	184,099,766	184,273,010	170,589,979

**Diluted earnings per share was calculated as follows:**

Weighted average number of common shares:				
Weighted average number of common shares – basic	184,432,657	184,099,766	184,273,010	170,589,980
Effect of outstanding options	1,017,834	1,318,947	1,246,434	1,414,504
Weighted average number of common shares – diluted	185,450,491	185,418,713	185,519,444	172,004,484

**Basic & diluted loss (earnings) per common share**

From continuing operations	0.03	0.20	0.37	0.23
From discontinued operations	0.00	(0.00)	(0.00)	(0.01)
Total basic & diluted loss per share	0.03	0.20	0.37	0.22

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

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

**10) Supplemental cash flow information**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
(Increase) / decrease of assets:				
Trade and other receivables	397	(342)	4,869	1,222
Prepaid expenses	(193)	138	(850)	(176)
Increase / (decrease) of liabilities:				
Trade and other payables	(1,344)	1,481	(10,935)	(34)
	<u>(1,140)</u>	<u>1,277</u>	<u>(6,916)</u>	<u>1,012</u>
<b>Cash and cash equivalents are comprised of:</b>				
Cash in bank	6,546	5,894	6,546	5,894
Short-term deposits	18,826	42,445	18,826	42,445
	<u>25,372</u>	<u>48,339</u>	<u>25,372</u>	<u>48,339</u>

**11) Segmented information**

The Company operates predominately in one business, namely the exploration, development and production of hydrocarbons and the sale of hydrocarbons and related activities. The Company primarily operates within the United Kingdom market. The disposed Argentine segment has been presented as a discontinued operation (See Note 3).

The following tables present revenue, profit and certain asset and liability information regarding the Company's business segments.

**Three months ended September 30, 2012**

	<b>Continuing operations</b>			<b>Discontinued operations</b>
	<b>United Kingdom</b>	<b>Corporate</b>	<b>Total</b>	<b>Argentina</b>
Segment revenue	-	-	-	-
Segment loss	4,010	1,158	5,168	156
Finance income			(94)	-
Finance costs			40	-
Foreign exchange loss			126	-
Loss before tax			<u>5,240</u>	<u>156</u>
<b>Total assets</b>	127,797	20,541	148,338	-
<b>Other segment information</b>				
Capital expenditures	18,294	3,232	21,526	-
Depletion and depreciation	6	18	24	-

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

**Three months ended September 30, 2011**

	<u>Continuing operations</u>			<u>Discontinued operations</u>
	<u>United</u>			<u>Argentina</u>
	<u>Kingdom</u>	<u>Corporate</u>	<u>Total</u>	
Segment revenue	-	-	-	2,403
Segment (loss) earnings	(35,888)	(1,228)	(37,116)	466
Finance income			238	99
Finance costs			(174)	(50)
Foreign exchange gain			252	4
(Loss) income before tax			(36,800)	519
<b>Total assets</b>	171,799	42,544	214,343	32,916
<b>Other segment information</b>				
Capital expenditures	2,022	71	2,093	280
Depletion and depreciation	16	39	55	899

**Nine months ended September 30, 2012**

	<u>Continuing operations</u>			<u>Discontinued operations</u>
	<u>United</u>			<u>Argentina</u>
	<u>Kingdom</u>	<u>Corporate</u>	<u>Total</u>	
Segment revenue	-	-	-	4,764
Segment (loss) earnings	(59,165)	(8,230)	(67,395)	310
Finance income			302	88
Finance costs			(182)	(130)
Foreign exchange (loss) gain			(429)	47
(Loss) income before tax			(67,704)	315
<b>Total assets</b>	127,797	20,541	148,338	-
<b>Other segment information</b>				
Capital expenditures	35,926	337	36,263	1,121
Depletion and depreciation	17	53	70	147

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

**Nine months ended September 30, 2011**

	<u>Continuing operations</u>			<u>Discontinued operations</u>
	<u>United Kingdom</u>	<u>Corporate</u>	<u>Total</u>	<u>Argentina</u>
Segment revenue	-	-	-	7,517
Segment (loss) earnings	(36,462)	(3,687)	(40,149)	1,578
Finance income			614	270
Finance costs			(392)	(280)
Foreign exchange loss			178	3
(Loss) income before tax			(39,749)	1,571
<b>Total assets</b>	171,799	42,544	214,343	32,916
<b>Other segment information</b>				
Capital expenditures	4,328	155	4,483	2,076
Depletion and depreciation	40	98	138	2,842

**12) Commitments and contingencies**

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

	2012	2013	2014	2015	2016	Thereafter
<b>United Kingdom</b>						
• Causeway <sup>(1)</sup>	19,061	13,802	145	170	196	222
• Cyclone <sup>(2)</sup>	6,212	12	6,212	-	-	-
• Fyne and Dandy <sup>(3)</sup>	283	10,033	33	33	33	33
• 25th Bid Round <sup>(4)</sup>	3,036	38,000	-	-	-	-
• 26th Bid Round	-	13	13	-	-	-
<b>Ireland</b>	184	69	-	-	-	-
<b>Office leases</b>	201	361	363	376	376	383
<b>Total</b>	<b>28,977</b>	<b>62,290</b>	<b>6,766</b>	<b>579</b>	<b>605</b>	<b>638</b>

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

(2) Relates to the well planned for the Cyclone prospect and the remaining contingent drilling commitment on the Typhoon prospect. Both wells are estimated at \$6.2 million.

(3) The Company agreed to pay an additional \$10 million as part of the acquisition of the Fyne Licence, upon approval of an FDP by DECC. This amount has been recorded at estimated fair value of \$nil on the consolidated balance sheet as contingent consideration (See Note 7).

(4) The Company acquired two licences in the 25<sup>th</sup> bid round which each include a contingent drilling commitment as at September 30, 2012. In October 2012, DECC waived all commitments related to the Licence P1563 Blocks 21/28b & 21/29c (estimated at \$17 million). Once the licence has been relinquished, the Company will have one remaining contingent drilling commitment (estimated at \$24 million).

## **Notes to Consolidated Financial Statements**

### **For the periods ended September 30, 2012 and 2011 (unaudited)**

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

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Under the terms of the Fionn Field Supplementary Agreement with Valiant, Antrim's share of the Fionn pre-investment costs are being paid by Valiant. Antrim has the option for three months following first oil production from the Causeway Field to opt out of participating in the Fionn Field development and sell its 35.5% working interest share to Valiant for the cost of its 35.5% working share of the Fionn pre-investment costs, or to confirm its continued participation by repaying its share of the Fionn pre-investment costs plus interest. If Antrim elects to opt in on the Fionn Field development Antrim's share of the development costs, including the pre-investment costs, is estimated to be approximately \$22 million in 2013, which is not included in the preceding table.

In 2011, the Company entered into a variation to an existing contract for drilling management services in the UK North Sea which required the drilling of two wells, estimated to take 50 days in a letter of intent preceding the contract variation. The Company contends that it met its contractual obligations under this variation through the drilling of the Erne pilot well (21/29d-11) and the Erne sidetrack well (21/29d-11Z). The drilling of these two wells took place over a period of 58 days. Subsequent to releasing the rig, the Company received an invoice from the drilling management services contractor charging the Company for approximately \$5 million in additional costs as the contractor claims all conditions of the contract had not yet been satisfied. In July 2012, the drilling management services contractor filed a claim against the Company for the additional invoice costs plus interest and lost management time, in the High Court of England and Wales. In August 2012, the Company filed a defence against this claim in the High Court of England and Wales. The Company is disputing the additional costs and believes it is more likely than not that it will not have to pay. As a result, a contingent liability has not been recorded.

### **13) Capital risk 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. The ability of the Company to successfully carry out its business plan is dependent upon the continued support of its shareholders, attracting joint venture partners, the discovery of economically recoverable reserves, and the ability of the Company to obtain financing to develop reserves. Historically the Company raised all of its capital requirements from internally generated cash flow and the issuance of common shares and securities exchangeable for common shares. The Company intends to fund the planned capital program through existing cash resources and through cash generated from production at Causeway.

Current restrictions on availability of credit may limit the Company's ability to access debt or equity financing for its development projects. The Company forecasts cash flows against a range of macroeconomic and financing market scenarios in an effort to identify future liabilities and arrange financing, if necessary. The Company projects its future expenditures on a quarterly and, where applicable, on a monthly basis to enable the Company to better adapt to changing market conditions. Although the Company may need to raise additional funds from outside sources, if available, in order to develop its oil and gas properties, the Company maintains flexibility to manage financial commitments on these assets.

**Notes to Consolidated Financial Statements**  
**For the periods ended September 30, 2012 and 2011 (unaudited)**  
**(Amounts in US\$ thousands, except as otherwise noted)**

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**14) Subsequent events**

On October 2, 2012, DECC agreed to waive the seismic and contingent well obligations on Licence P1563 Blocks 21/28b & 21/29c which allows the Company to relinquish the licence in its entirety.

On October 22, 2012, Antrim announced preliminary results of drilling operations from the Contender Well. With the successful drilling of the Contender exploration well, TAQA also earned a 35% working interest in the adjacent Licence P201 Block 211/22a Kerloch Area, reducing Antrim's working interest from 21% to 13.65%.

On November 12, 2012, Antrim announced that first production from Causeway had commenced with gross production rates of approximately 4,500 bopd.

On November 12, 2012, Antrim signed that a Heads of Terms agreement with Teekay Corporation to lease the "Hummingbird Spirit" Floating Production, Storage and Offloading vessel for the development of the Fyne Field.



## DIRECTORS

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

Colin Maclean <sup>(2) (3) (4) (5)</sup>  
Independent Director

Dr. Gerry Orbell <sup>(1) (3) (4) (5)</sup>  
Chairman,  
Antrim Energy Inc.

Erik Mielke  
Independent Director

Jim Perry <sup>(1) (3) (4) (5)</sup>  
President and CEO,  
Alternative Fuel Systems (2004) Inc.

Jim Smith <sup>(1) (2) (5)</sup>  
Independent Director

Jay Zammit <sup>(2) (5)</sup>  
Partner,  
Burstall Winger LLP

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

## OFFICERS

Stephen Greer  
President and Chief Executive Officer

Douglas Olson  
Chief Financial Officer

Kerry Fulton  
Vice President, Operations

Terry Lederhouse  
Vice President, Commercial

Martin Dashwood  
Vice President, Exploration

Adrian Harvey  
Corporate Secretary

## STOCK EXCHANGE LISTINGS

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Calgary, Alberta

## BANKERS

Toronto-Dominion Bank of Canada

## AUDITORS

PricewaterhouseCoopers LLP  
Calgary, Alberta

## INDEPENDENT ENGINEERS

McDaniel & Associates Consultants Ltd.

## REGISTRAR AND TRANSFER AGENT

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

CIBC Mellon Trust Company  
Calgary, Alberta