

Forent Energy Ltd.



Financial Statements
Years ended December 31, 2009 and 2008

Management's Report

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Forent Energy Ltd. Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

PricewaterhouseCoopers LLP were appointed by the Forent Energy Ltd. shareholders to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors exercises the responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The audit committee also considers the independence of the external auditors, their fees and, for review by the Board of Directors and approval by the shareholders, their engagement or re-appointment. The external auditors have access to the Audit Committee without the presence of management.

signed "Dennis Forgeron"

Dennis Forgeron
President and Chief Executive Officer

signed" "Tom Lester"

Thomas E. Lester
Chief Financial Officer

April 22, 2010

**INSERT THE SIGNED PWC
AUDITOR REPORT**

FORENT ENERGY LTD.
Balance Sheets
As at December 31, 2009 and 2008

	December 31, 2009 (\$)	December 31, 2008 (\$)
ASSETS		
Current assets		
Cash and cash equivalents (note 11)	1,701,523	1,983,525
Accounts receivable	667,541	1,389,359
Prepays and other assets	164,315	180,199
	2,533,379	3,553,083
Property, plant and equipment (note 4)	8,654,743	7,175,222
	11,188,122	10,728,305
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	1,350,454	1,831,673
Asset retirement obligation (note 5)	408,703	332,089
Future tax liability (note 6)	738,841	520,785
	2,497,998	2,684,547
SHAREHOLDERS' EQUITY		
Share capital (note 7b)	10,094,720	8,738,635
Warrants (note 7d)	713,781	326,446
Contributed surplus (note 7c)	1,166,576	645,910
Deficit	(3,284,953)	(1,667,233)
	8,690,124	8,043,758
	11,188,122	10,728,305
Commitments (note 13)		
Subsequent event (note 14)		

See accompanying notes to financial statements

FORENT ENERGY LTD.
Statements of Operations and Comprehensive Loss and Deficit
For the years ended December 31, 2009 and 2008

	Year ended December 31, 2009 (\$)	Year ended December 31, 2008 (\$)
REVENUE		
Oil and natural gas income	622,257	855,305
Royalties	(88,315)	(113,777)
Realized gain on risk management activities	5,250	-
Interest income	11,612	46,923
	<u>550,804</u>	<u>788,451</u>
EXPENSES		
Operating and production	541,868	338,711
General and administrative	967,533	981,795
Interest expense	23,720	65,057
Stock based compensation (note 7e)	376,936	441,196
Depletion, depreciation and accretion	941,096	296,105
	<u>2,851,153</u>	<u>2,122,864</u>
LOSS BEFORE INCOME TAXES	(2,300,349)	(1,334,413)
Future income tax recovery (expense)	682,629	(132,207)
NET LOSS and COMPREHENSIVE LOSS	(1,617,720)	(1,466,620)
DEFICIT, BEGINNING OF YEAR	(1,667,233)	(200,613)
DEFICIT, END OF YEAR	(3,284,953)	(1,667,233)
NET LOSS PER SHARE (note 7f) – basic and diluted	(\$0.03)	(\$0.03)

See accompanying notes to financial statements

FORENT ENERGY LTD.
Statements of Cash Flows
For the years ended December 31, 2009 and 2008

	Year ended December 31, 2009 (\$)	Year ended December 31, 2008 (\$)
CASH PROVIDED BY (USED IN)		
OPERATING		
Net loss for the year	(1,617,720)	(1,466,620)
Add items not affecting cash:		
Stock based compensation	376,936	441,196
Depletion, depreciation and accretion	941,096	296,105
Future income tax expense (recovery)	(682,629)	132,207
	<u>(982,317)</u>	<u>(597,112)</u>
Change in non-cash working capital	132,278	1,019,447
	<u>(850,039)</u>	<u>422,335</u>
FINANCING		
Issue of common shares and warrants	3,356,305	4,344,127
Share issue costs	(568,470)	(349,385)
Long-term debt	-	(500,000)
Change in non-cash working capital	-	(29,651)
	<u>2,787,835</u>	<u>3,465,091</u>
INVESTING		
Acquisition of property, plant and equipment	(2,087,160)	(3,093,167)
Purchase of assets	(276,935)	-
Proceeds from sale of assets	20,092	-
Change in non-cash working capital	124,205	(291,450)
	<u>(2,219,798)</u>	<u>(3,384,617)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(282,002)	502,809
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,983,525	1,480,716
CASH AND CASH EQUIVALENTS, END OF YEAR	1,701,523	1,983,525
CASH INTEREST PAID	31,608	30,542

See accompanying notes to financial statements

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

1. NATURE OF OPERATIONS

Forent Energy Ltd. (the "Company" or "Forent") was incorporated pursuant to the provisions of the Alberta Business Corporations Act on April 6, 1999. The Company is engaged in the exploration, development and production of petroleum and natural gas reserves in Nova Scotia and western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

(a) *Financial Instruments*

Financial instruments consist primarily of accounts receivable, deposits, accounts payable and accrued liabilities. Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the accounting standard for financial instruments. Financial assets and liabilities "held-for-trading" are measured at fair value with changes in those values recognized in earnings. "Loans and receivables" and "other financial liabilities" are measured at cost.

Deposits and risk management assets are designated as "held-for-trading". Accounts receivable are designated as "receivables". Accounts payable and accrued liabilities and risk management liabilities are designated as "other financial liabilities".

(b) *Property, Plant and Equipment*

The Company accounts for petroleum and natural gas activities in accordance with the Canadian guideline on full cost accounting in the petroleum and natural gas industry, whereby all costs associated with the acquisition of and the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one cost centre. Such costs include land acquisition costs, lease rentals on non-producing properties, drilling, equipping, processing facilities, geological and geophysical costs and overhead expenses directly related to exploration and development activities.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate.

(c) *Depletion and depreciation*

The costs of acquiring and evaluating unproved properties are initially excluded from the depletion calculation. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. These properties are assessed at least annually for impairment.

Depletion is calculated using the unit-of-production method based on estimated proved reserves before royalties, as determined by independent reserve evaluators. For purposes of this calculation, reserves and production of natural gas are converted into equivalent barrels of petroleum based on the relative energy equivalent of six thousand cubic feet of natural gas to one barrel of crude petroleum.

Office furniture, equipment and other is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Ceiling Test*

The Company at least annually assesses the carrying value of its oil and gas properties to determine if impairment has occurred. The Company applies a two-stage ceiling test to capitalized costs to ensure that such costs do not exceed the undiscounted future cash flows from production of proved reserves. Undiscounted future cash flows are calculated based on an independent petroleum engineers estimate of forward indexed prices applied to estimated production of proved reserves, plus the cost of undeveloped properties that were excluded from the depletion calculation, less estimated future operating costs, royalties net of applicable tax credits, future capital development costs net of drilling incentive credits and abandonment costs. When the carrying amount of a cost center is not recoverable the second stage of the process will determine the impairment whereby the cost center would be written down to its fair value. The second stage requires the calculation of discounted cash flows from proved plus probable reserves using a risk-free interest rate plus the cost of undeveloped land, net of any impairment. The fair value is estimated using generally accepted present value techniques, which incorporate risk and other uncertainties when determining expected cash flows.

(e) *Asset Retirement Obligations*

The Company recognizes the fair value of an asset retirement obligation ("ARO") associated with long-lived assets in the period in which it is put into use and when a reasonable estimate of fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is included in depletion, depreciation and accretion expense in the period. Revisions to the estimated timing of cash flow or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the year in which the settlement occurs.

Determination of the original undiscounted costs is based on engineering estimates using current costs and technology in accordance with existing legislation and industry practice. The obligations recognized are statutory, contractual or legal obligations. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth and area specific environmental legislation.

(f) *Future Income Taxes*

Future income taxes are accounted for based on the asset and liability method of tax allocation accounting. Under this method, future income tax assets or liabilities are recognized, at substantively recognized rates, for differences between the amount reported for financial statement purposes and their respective tax basis. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(g) *Flow-Through Common Shares*

The Company has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through share issues, the income tax attributes of the related expenditures are renounced to the subscribers. The foregone tax benefits to the Company are recorded through the future income tax asset or liability, at the time of renunciation as a reduction in share capital.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) *Per Share Amounts*

The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money securities are used to repurchase common shares at the average market price during the period. Basic per share amounts are computed by dividing net earnings or loss by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if the securities or other contracts to issue common shares were exercised or converted to common shares. Anti-dilutive securities are not included in the calculation.

(i) *Stock-Based Compensation*

The Company uses the fair value method for valuing stock option grants. Compensation expense is based on the estimated fair value of the options at the time of the grant as determined using the Black-Scholes pricing model. Under this method, compensation cost attributable to all options granted is measured at fair value at the grant date and expensed on a straight-line basis over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested options expire, amounts previously recognized in contributed surplus and compensation expense associated with such stock options are not reversed. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

(j) *Revenue Recognition*

Revenue associated with the sale of petroleum and natural gas production owned by the Company is recognized when ownership title passes from the Company to its customers. Revenue is presented gross of direct transportation costs.

(k) *Cash and Cash Equivalents*

Cash and cash equivalents include term deposits and investments with original maturities of three months or less.

(l) *Investments*

Investments are carried at fair value. Fair value is determined by multiplying the year end trading price of the investments by the number of common shares held as at period end. Any change in the fair value is recorded to earnings.

(m) *Hedging*

The Company may periodically enter into forward contracts to reduce its exposure to price fluctuations on a portion of its oil and natural gas production. The contracts are not used for speculative trading purposes. Payments or receipts on financial instruments that are designated and effective as hedges are recognized in income concurrently with the hedged transaction. Any financial instrument that does not constitute a hedge is recorded at fair value in the balance sheet with any gain or loss reflected in the statement of operations. Gains or losses on physical and qualifying hedge contracts are reported as adjustments to commodity revenues in the related production month.

(n) *Joint Venture Activities*

The Company conducts a significant portion of its exploration, development and production activities jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) *Measurement Uncertainty*

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for the asset retirement obligations and amounts used for the ceiling test calculations are based on estimates of reserves, production rates, royalties and future prices and costs. These estimates of reserves and related future cash flows are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

The calculation of future income tax is based on assumptions, which are subject to uncertainty as to timing as well as the tax rates at which temporary differences are expected to reverse. In addition, the measurement of the Company's income tax liability and tax pools requires interpretation of complex laws and regulations. All tax filings are subject to audit and reassessment, potentially several years after the initial filing. Accordingly, actual income tax assets and liabilities may differ significantly from the amounts initially estimated.

The Black-Scholes option valuation model was developed for use in estimating the fair value of options, which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

3. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2009 the Company adopted the CICA Handbook Section 3064, "*Goodwill and Intangible Assets*". The new section establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets and replaces the existing Handbook Section 3062, "*Goodwill and Other Intangible Assets*" and Section 3450, "*Research and Development Costs*". Intangible assets associated with the exploration and development of oil and gas assets are specifically excluded under the new standard. The adoption of this revised standard had no material impact on Forent's financial statements.

Effective January 20, 2009 the Company adopted the CICA Emerging Issues Committee ("EIC") - 173, "*Credit risk and the fair value of financial assets and financial liabilities*". The new pronouncement considers whether an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. The adoption of this revised standard resulted in additional disclosures within Forent's financial statements.

On July 1, 2009, CICA Handbook Section 3855, "*Financial Instruments*" was amended as follows: i) change the categories into which a debt instrument is required or permitted to be classified; (ii) change the impairment model for held-to-maturity financial assets to the incurred credit loss model of CICA 3025; and (iii) require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. The adoption of this amended standard had no material impact on Forent's financial statements.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

3. CHANGE IN ACCOUNTING POLICIES (continued)

Effective December 31, 2009 the Company adopted the amended CICA Handbook Section 3862, "*Financial Instruments - Disclosures*". The amended section incorporates additional disclosure requirements about the fair value measurements of financial instruments and to enhance liquidity risk disclosure requirements. The adoption of this revised standard resulted in additional disclosures within Forent's financial statements.

Future Accounting Policy Changes

In February 2008 the CICA Accounting Standards Board ("AcSB") confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. The Company will be required to report its results for interim and annual financial statements in accordance with IFRS beginning in fiscal year 2011, with comparative information for the previous fiscal year. The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. The impact of IFRS on the Company's financial statements is not reasonably determinable at this time.

The CICA issued Handbook Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard is expected to impact the Company's financial statements only to the extent that business combinations are entered into after the effective date.

"Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have a material impact on the Company's financial statements.

"Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have a material impact on the Company's Consolidated Financial Statements.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
December 31, 2009			
Petroleum and natural gas properties and equipment	10,081,307	1,458,106	8,623,201
Other	82,988	51,446	31,542
	10,164,295	1,509,552	8,654,743
December 31, 2008			
Petroleum and natural gas properties and equipment	7,686,194	557,970	7,128,224
Other	82,383	35,385	46,998
	7,768,577	593,355	7,175,222

As of December 31, 2009, the cost of petroleum and natural gas properties includes \$1.3 million (2008 - \$1.2) relating to costs of unproved properties which have been excluded from costs subject to depletion and depreciation. Future development costs on proved undeveloped reserves of \$2.1 million (2008 - \$2.0 million) are included in the depletion calculation.

The Company capitalized \$0.1 million (2008 - \$nil) of direct general & administrative costs associated with petroleum and natural gas assets.

The Company incurred a ceiling test write-down of \$0.1 million (2008 – nil) related to oil and gas assets subject to the impairment test which is included in the depletion expense recorded for the year ended December 31, 2009. The table below summarizes the benchmark prices for the next 5 years used by the independent reserve evaluator in preparing the Company's reserve report.

Year	Natural Gas CAD\$/Mcf	Crude Oil CAD\$/bbl	Natural Gas Liquids CAD\$/bbl
2010	5.31	75.57	52.56
2011	6.16	79.89	56.34
2012	6.39	80.39	58.12
2013	7.15	82.58	60.44
2014	7.80	83.29	45.55

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

5. ASSET RETIREMENT OBLIGATION

The future asset retirement obligation results from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. As at December 31, 2009, the Company has estimated the total undiscounted asset retirement obligation as \$751,819 (2008 - \$648,360) to be incurred over the next 30 years. The Company used a credit adjusted risk free rate of 7.5% (2008 – 7.5%) and an estimated inflation rate of 2.5% (2008 – 2.5%) to calculate the present value of the asset retirement obligations, which are reflected in the financial statements and the following table.

The changes to the asset retirement obligation for the period are as follows:

	December 31, 2009	December 31, 2008
	(\$)	(\$)
Asset retirement obligation, beginning of period	332,089	230,351
Increase in obligations during the period	71,378	55,011
Decrease in obligations from disposals during the period	(16,573)	
Liabilities incurred	(5,063)	-
Revision in cost estimate	1,973	37,637
Accretion expense	24,899	9,090
Asset retirement obligation, end of period	408,703	332,089

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

6. FUTURE INCOME TAX

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate to the loss before income taxes in relation to the following items.

	December 31, 2009	December 31, 2008
	(\$)	(\$)
Statutory tax rate	29.0%	29.5%
Expected income tax reduction	(667,103)	(393,652)
Stock-based compensation	109,311	130,153
Other non-deductible expenses	2,793	5,310
Rate adjustment	(27,303)	475,368
Reconcile book to actual on filing tax returns	(58,882)	-
Change in valuation allowance	-	(69,123)
Other	(41,445)	(15,849)
Future income tax expense (recovery)	(682,629)	132,207

Components of the net future income tax liability are as follows:

	December 31, 2009	December 31, 2008
	(\$)	(\$)
Property, plant and equipment	(2,053,113)	(1,229,380)
Asset retirement obligations	126,686	100,955
Share issue costs	210,163	128,393
Non-capital losses	977,423	482,418
Other	-	(3,171)
Future income tax liability	(738,841)	(520,785)

As at December 31, 2009, the Company had approximately \$5.8 million (2008 - \$5.2) of tax balances available for deduction against future taxable income.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

7. SHARE CAPITAL

(a) *Authorized*

Unlimited number of voting Class A common shares

Unlimited number of preferred shares, of which none have been issued.

(b) *Issued and Outstanding*

As at	December 31, 2009		December 31, 2008	
	Shares	Amount	Shares	Amount
	(#)	(\$)	(#)	(\$)
Common shares				
Balance, beginning of period	49,872,476	8,738,635	20,288,700	5,320,641
Shares cancelled pursuant to reverse takeover	-	-	(23,337,400)	-
Issued pursuant to reverse takeover, net of Seriatim shares issued	-	-	47,539,146	-
Issued pursuant to reverse takeover, to Seriatim	-	-	2,333,330	782,017
Issued pursuant to private placements	20,065,210	2,825,240	3,048,700	3,418,375
Share issue costs	-	(405,433)	-	(290,757)
Tax effect of flow-through shares renounced	-	(1,063,722)	-	(491,641)
Common shares, end of period	69,937,686	10,094,720	49,872,476	8,738,635

On October 28, 2009 the Company completed a brokered private placement for gross proceeds of \$3,206,610. The brokered private placement consisted of 10,223,799 units of the Company at a price of \$0.15 per unit, consisting of one common share and one half of a common share purchase warrant with each whole warrant being exercisable for one common share of the Company at a price of \$0.17 per share until April 28, 2011; and 9,841,411 flow through common shares at a price of \$0.17 per share. Gross fees associated with the private placement were \$568,470, consisting of \$98,114 in legal and regulatory expenses, in conjunction with underwriter fees of \$320,661 in cash and the issuance of 2,006,521 broker warrants that were fair valued at \$149,695 and exercisable for one common share at a price of \$0.17 per share, expiring on April 28, 2011. The future income tax benefit associated with the share issue costs was \$163,037, resulting in net share issuance costs of \$405,433.

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

7. SHARE CAPITAL (continued)

(c) *Contributed Surplus*

	December 31, 2009	December 31, 2008
	(\$)	(\$)
Contributed surplus, beginning of year	645,910	160,274
Stock-based compensation expense	376,936	441,196
Expiry of warrants	143,730	-
Issuance of options pursuant to reverse takeover	-	44,440
Contributed surplus, end of year	1,166,576	645,910

(d) *Share Purchase Warrants*

	December 31, 2009			December 31, 2008		
	Warrants	Amount	Weighted Average Exercise Price	Warrants	Amount	Weighted Average Exercise Price
	(#)	(\$)	(\$)	(#)	(\$)	(\$)
Warrants						
Warrants, beginning of period	1,777,956	326,446	0.51	4,122,650	182,716	1.68
Issue of warrants	5,111,900	381,370	0.17	304,870	87,630	1.10
Broker warrants	2,006,521	149,695	0.17	175,300	56,100	1.00
Expiry of warrants, transferred to contributed surplus	(978,122)	(143,730)	0.52	-	-	-
Cancellation of performance warrants	-	-	-	(3,730,000)	-	1.75
Cancellation of warrants pursuant to reverse takeover	-	-	-	(872,820)	-	1.03
Issuance of replacement warrants pursuant to reverse takeover	-	-	-	1,777,956	-	0.51
Warrants, end of period	7,918,255	713,781	0.20	1,777,956	326,446	0.51

FORENT ENERGY LTD.
Notes to Financial Statements
Years ended December 31, 2009 and 2008

7. SHARE CAPITAL (continued)

In connection with the October 28, 2009 brokered private placement the Company issued 10,223,799 units of the Company at a price of \$0.15 per Unit, consisting of one common share and one half of a common share purchase warrant with each whole warrant being exercisable for one common share of the Company at a price of \$0.17 per share until April 28, 2011. The 5,111,900 warrants issued as part of the units were valued at \$381,370. In addition, the Company issued 2,006,521 broker warrants to the issue's agent exercisable for one common share of the Company at a price of \$0.17 per share until April 28, 2011. The broker warrants were valued at \$149,695, as part of the brokered private placement.

The Company calculated the fair value of the unit warrants and broker warrants issued on October 28, 2009, using the Black-Scholes option pricing model at the private placement closing date. The weighted average fair market value of the warrants and the assumptions used in their determination were as follows: dividend rate 0%; expected volatility: 72%; risk-free interest rate: 0.97%; and expected life: 1.5 years.

(e) *Stock options*

The Company maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such a purpose, may from time to time grant to employees, officers, directors and consultants of the Company, options to acquire common shares in such numbers, for such terms, and at such exercise prices, as may be determined by the Board of Directors or a committee of the board.

The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan is equal to 9,974,495 common shares. The maximum number of common shares which may be reserved for issuance to any one optionee pursuant to share options may not exceed 5% of the common shares outstanding at the time of grant.

As at December 31, 2009 and 2008, the following stock options were outstanding:

	December 31, 2009		December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Beginning of period	7,070,554	0.49	1,880,000	1.00
Expired	(183,332)	0.54	(10,000)	1.00
Cancelled	(2,811,112)	0.49	(1,870,000)	1.00
Granted	765,000	0.25	-	-
Granted pursuant to re-pricing of options	-	-	3,809,260	0.49
Granted pursuant to warrants conversion to stock option	-	-	3,004,630	0.49
Granted pursuant to reverse takeover	-	-	256,664	0.54
End of period	4,841,110	0.47	7,070,554	0.49

As at December 31, 2009, the weighted average remaining life of the options outstanding was 3.43 years (2008 – 3.93 years).

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7. SHARE CAPITAL (continued)

As at December 31, 2009, 3,709,814 options were vested and exercisable between \$0.25 and \$0.54 per share with a weighted average exercise price of \$0.47 per share (2008 – \$0.49 per share).

On April 29, 2009, the Company granted stock options to acquire up to an aggregate of 765,000 common shares of Forent to certain directors, officers and employees of the Company. Each of the options is exercisable for a five year term expiring on April 29, 2014 and exercisable until that time at a price of \$0.25 per common share. One-third of the options vested immediately at the date of grant, with an additional one-third to vest on each of the first and second anniversaries of the grant date.

The Company calculated the fair value of the stock options granted using the Black-Scholes option pricing model at the date of grant. The weighted average fair market value of the stock options and the assumptions used in their determination for options issued on April 29, 2009 were as follows: dividend rate: 0%; expected volatility: 72%; risk-free interest rate: 1.94%; and expected life: 3.5 years.

Option Exercise Price	Number Outstanding (#)	Weighted Average Remaining Life (years)	Number of Options Exercisable (#)
As at December 31, 2009			
\$0.25	765,000	4.33	255,000
\$0.49	4,002,778	3.25	3,381,482
\$0.54	73,332	3.58	73,332
	4,841,110	3.43	3,709,814

The Company accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options and share purchase warrants granted to employees, officers, directors and other service providers. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

(f) *Per share amounts*

Basic per share amounts have been calculated using the weighted average number of common shares outstanding during the year. The treasury stock method has been used for the calculation of diluted loss per share. In calculating the net loss per diluted share, options and warrants totalling 5,554,891 (2008 – 8,848,521) were excluded from the dilution calculation, as they were anti-dilutive.

8. CAPITAL MANAGEMENT

The primary capital management objective of the Company is to ensure adequate working capital is available to sufficiently fund both the board-approved business development plans related to oil and natural gas exploration and development and the ongoing operational working capital requirements, while seeking to minimize the risk-adjusted cost of capital. The Company defines capital as shareholders' equity plus short and long-term debt. The Company's current optimal capital structure is approximately 90% shareholder equity, with no more than 10% debt outstanding. Management believes that such a capital structure is suitable in light of its capital management objectives and is commensurate with its western Canadian oil and gas endeavours

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8. CAPITAL MANAGEMENT (continued)

and the development stage of its operations in Nova Scotia.

The Company's capital management plan seeks to ensure adequate resources are available to fund its activities through the next twelve months, on a rolling basis. A significant measure used in assessing capital adequacy is thus the expected number of days of operations that can be funded from current working capital. Capital levels are deemed sufficient if they can fund the following twelve months exploration program and a portion of corporate overhead expenses. In cases where it appears that there will be insufficient capital to fund future development and overhead expenses, additional funds are raised or the capital program and/or overhead expenses adjusted. As of December 31, 2009, Forent had adequate capital to complete its minimum business development plans for the following twelve month period. Additional capital raised will primarily be invested in oil and gas exploration and development activities.

Capital spending on exploration and development of oil and natural gas projects will generally be limited to the extent that debt and equity financing is available on acceptable terms. The acceptability of debt and equity financing terms is generally determined by reference to the prevailing market interest rates and market price of the Company's shares, respectively. As at

December 31, 2009 the Company had no short or long-term debt allowing for some debt capacity under its capital structure. The Company will continue to assess its ongoing capital requirements with reference to its capital structure policy.

9. FINANCIAL RISK MANAGEMENT

(a) *Credit risk*

Virtually all of the Company's accounts receivable are with companies in the petroleum and natural gas industry in Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable.

The majority of the Company's natural gas and oil revenues are marketed through two major oil and companies, both of which have investment grade creditworthiness.

As at December 31, 2009, accounts receivable and their respective aging were comprised of the following.

	0 to 30 days	31 to 90 days	91 + days	Total
Aging of receivables				
	(\$)	(\$)	(\$)	(\$)
Sales and accrued revenues	126,505	-	-	126,505
Joint interest billings with partners	82,099	140,064	119,400	341,563
Goods and service tax credit	42,251	18,430	138,162	198,843
Other receivables	-	-	630	630
Accounts receivable	250,855	158,494	258,192	667,541

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9. FINANCIAL RISK MANAGEMENT (continued)

(b) *Liquidity risk*

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company's main source of liquidity to fund operations is from the issuance of capital and cash flow from operations. The Company attempts to limit liquidity risk by maintaining fiscal restraint in its spending on capital expenditures and from time to time may use forward commodity contracts to predetermine the selling prices of Company production to reduce the variability of cash flows.

As at December 31, 2009 the timing of cash outflows relating to financial liabilities are outlined in the table below.

	Less than 1 Year	1 to 3 Years	4 to 5 Years	There-after	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Accounts payable and accrued liabilities	1,350,454	-	-	-	1,350,454

As at December 31, 2008 the timing of cash outflows relating to financial liabilities are outlined in the table below:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	There-after	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Accounts payable and accrued liabilities	1,831,673	-	-	-	1,831,673

(c) *Commodity price risk*

The nature of the Company's operations results in exposure to fluctuations in commodity prices. To manage that risk the Company may enter into derivative contracts to predetermine the selling price of a portion of its natural gas and/or oil production as part of its risk management program.

During the year ended December 31, 2009, the Company entered into a fixed price contract to predetermine the selling price of a portion of its natural gas production, as part of its risk management program. The term of the contract was October 1, 2009 to December 31, 2009, with a daily volume of 200 GJ/d at a fixed price of \$4.57.

As at year ended December 31, 2009 the Company did not have any commodity risk management contracts in place. Management continuously monitors commodity prices and may initiate instruments to manage exposure to these risks when it deems necessary.

(d) *Interest Rate Risk*

Interest rate risk arises from changes in market interest rates that may affect the future cash flows from the Company's financial assets or liabilities. The Company may manage its interest rate risk through the use of risk management contracts. There were no interest rate risk management contracts outstanding at December 31, 2009.

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10. FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial assets and liabilities that are reflected in the financial statements are presented below.

	2009	2008
	(\$)	(\$)
Financial assets		
<i>Held-for-trading</i>		
Deposits	122,400	139,770
<i>Receivables</i>		
Accounts receivable	667,541	1,389,359
Financial liabilities		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	1,350,454	1,831,673

The deposits and accounts receivable and accounts payable and accrued liabilities are carried at cost which approximates their fair value due to the short-term nature of the accounts.

As at each reporting period the Company will assess whether a financial asset is impaired, other than those financial assets classified as held-for-trading. Any impairment loss will be included in earnings for the period.

There were no derivative contracts or other risk management contracts outstanding at the year ended December 31, 2009.

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11. SUPPLEMENTARY CASH FLOW INFORMATION

The following table details the components of cash and cash equivalents:

	2009	2008
	(\$)	(\$)
Cash	701,643	159,922
Short-term investments	999,880	1,823,603
Cash and cash equivalents	1,701,523	1,983,525

The following table details the components of non-cash working capital:

	2009	2008
	(\$)	(\$)
Provided by (used in)		
Accounts receivable and other assets	737,702	489,974
Accounts payable and accrued liabilities	(481,219)	208,372
	256,483	698,346
Operating	132,278	1,019,447
Financing	-	(29,651)
Investing	124,205	(291,450)
	256,483	698,346

12. RELATED PARTY TRANSACTIONS

The Company enters into various transactions with related parties from time to time. These transactions are entered into under the normal course of operations and are measured at the exchange amount. During the years ended December 31, 2009 and 2008, the Company had the following related party transactions:

The Company incurred \$120,000 (2008 - \$120,000) of management/administrative costs for services rendered from a company controlled by the majority shareholder during the year ended December 31, 2009. As at December 31, 2009, there was an outstanding balance of \$10,500 (2008 - \$10,500) to the related company.

During the year ended December 31, 2009, the Company incurred \$153,432 (2008 - \$98,009) of net operating costs relating to pipeline and facility rental fees from a company controlled by the majority shareholder. As at December 31, 2009, there was an outstanding balance of \$18,723 (2008 - \$20,733) owed to the related company. The pipeline and facility rental fees and outstanding balance have been incurred on facilities that the Company operates with an average 20% working interest. As such, 80% of the gross operating costs and outstanding balances are directly attributed to the Company's joint venture partners, consisting primarily of large and well funded petroleum producers.

A company that the majority shareholder had an interest in has a working interest in some of the wells that the Company operates. As at December 31, 2009, there was an outstanding balance due the related party of \$22,079 (2008 - \$18,546). Subsequent to December 31, 2009, the Company acquired the related party, see note 14.

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12. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2009 the Company incurred \$63,226 (2008 - \$127,364), for legal services with a law firm of which a board member is a partner. As at December 31, 2009, there was an outstanding balance due the related party of \$7,737 (2008 – \$99,333).

During the year ended December 31, 2009 a company that an officer and director has an interest in, was paid a total of \$120,000 (2008 – \$56,595), for the provision of management/administrative services. As at December 31, 2009, there was an outstanding balance of \$10,500 (2008 – \$10,500) due the related party.

13. COMMITMENTS

(a) *Flow-through share obligations*

On October 28, 2009, the Company issued flow-through shares requiring that \$1,673,040 in qualifying exploration expenditures be expended by December 31, 2010. As at December 31, 2009 the Company has incurred approximately \$0.6 million of qualifying expenditures, with approximately \$1.1 million remaining to be spent by December 31, 2010.

On August 19, 2008, the Company issued flow-through shares requiring that \$3,506,005 in qualifying exploration expenditures be expended by December 31, 2009. As at December 31, 2009 the Company had incurred all of qualifying expenditures in accordance with the terms of the flow-through shares.

(b) *Beech Hill Block commitment*

During 2008, the Company entered into an exploration agreement with the government of Nova Scotia for the Beech Hill Block, committing to \$2,070,000 of exploration expenditures by April 30, 2011 in accordance to the following schedule.

	(\$)
2009	420,000
2010	550,000
2011	1,100,000
	2,070,000

(c) *Alton Block commitment*

On February 12, 2009 Forent received approval from the province of Nova Scotia, for the renewal and extension of the Company's exploration agreement of the Alton Block, to February 3, 2012. As part of this three year renewal the Company has made the following spending commitments.

	(\$)
2010	350,000
2011	750,000
2012	1,250,000
	2,350,000

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14. SUBSEQUENT EVENTS

Completion of Private Placement

On April 15, 2010 the Company completed a non-brokered private placement for gross proceeds of \$4,420,000. The private placement consisted of the issuance of 15,175,000 units (the "Units") of the Company at a price of \$0.20 per Unit, each Unit consisting of one common share and one half of a common share purchase warrant with each whole warrant being exercisable for one common share of the Company at a price of \$0.26 per share until April 15, 2012; and 6,295,455 flow through common shares at a price of \$0.22 per share. Fees associated with the private placement consisted of approximately \$35,000 in legal and regulatory expenses.

Purchase of Edelex Holding Ltd.

Effective January 1, 2010 Forent acquired Edelex Holdings Ltd. ("Edelex"), a private Canadian controlled private corporation, pursuant to the issuance of 327,771 Forent common shares to the Edelex shareholders in exchange for all of the common shares of Edelex. The purchase allocation of Edelex consisted of \$81,969 of fair valued assets and liabilities, comprised of \$49,036 in oil and gas interests and \$32,933 in net working capital. Share issue costs of \$5,000 were estimated to be incurred on the transaction and on January 1, 2010, immediately following the acquisition, Edelex amalgamated with Forent.