

**Forent Energy Ltd.**  
**Financial Statements**  
**For the Three and Six Months Ended**  
**June 30, 2009 and 2008**

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In accordance with National Instrument 51-102 *CONTINUOUS DISCLOSURE OBLIGATIONS*, the Company discloses that its auditors have not reviewed the unaudited financial Statements for the period ended June 30, 2009

**FORENT ENERGY LTD.**  
**Balance Sheets**  
**As at June 30, 2009 and December 31, 2008**  
**(unaudited)**

	<b>June 30, 2009 (\$)</b>	<b>December 31, 2008 (\$)</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	<b>673,660</b>	1,983,525
Accounts receivable	<b>959,400</b>	1,389,359
Prepays and other assets	<b>162,894</b>	180,199
	<b>1,795,954</b>	3,553,083
Property, plant and equipment (note 4)	<b>7,179,245</b>	7,175,222
	<b>8,975,199</b>	10,728,305
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	<b>939,508</b>	1,831,673
Asset retirement obligation (note 5)	<b>359,801</b>	332,089
Future tax liability	<b>1,301,868</b>	520,785
	<b>2,601,177</b>	2,684,547
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 6b)	<b>7,674,913</b>	8,738,635
Warrants (note 6d)	<b>326,446</b>	326,446
Contributed surplus (note 6c)	<b>846,930</b>	645,910
Retained earnings (deficit)	<b>(2,474,267)</b>	(1,667,233)
	<b>6,374,022</b>	8,043,758
	<b>8,975,199</b>	10,728,305
Commitments (note 10)		

(signed) "Dennis Forgeron" Director

(signed) "Thomas E. Lester" Director

See accompanying notes to financial statements

**FORENT ENERGY LTD.****Statements of Operations and Comprehensive Loss and Deficit****For the three and six months ended June 30, 2009 and 2008****(unaudited)**

	<b>Three months ended June 30, 2009 (\$)</b>	<b>Three months ended June 30, 2008 (\$)</b>	<b>Six months ended June 30, 2009 (\$)</b>	<b>Six months ended June 30, 2008 (\$)</b>
<b>REVENUE</b>				
Oil and natural gas income	<b>140,004</b>	304,749	<b>313,168</b>	500,055
Royalties	<b>(14,964)</b>	(46,158)	<b>(32,551)</b>	(73,785)
Interest income	<b>4,693</b>	11,161	<b>6,495</b>	27,337
	<b>129,733</b>	269,752	<b>287,112</b>	453,607
<b>EXPENSES</b>				
Operating and production	<b>115,360</b>	111,916	<b>239,933</b>	178,787
General and administrative	<b>231,676</b>	254,716	<b>517,542</b>	392,572
Interest expense	<b>18,191</b>	34,772	<b>24,932</b>	47,215
Stock based compensation (note 6e)	<b>104,556</b>	28,676	<b>201,020</b>	44,765
Depletion, depreciation and accretion	<b>205,729</b>	55,522	<b>393,358</b>	97,416
	<b>675,512</b>	485,602	<b>1,376,785</b>	760,755
<b>LOSS BEFORE INCOME TAXES</b>	<b>(545,779)</b>	(215,850)	<b>(1,089,673)</b>	(307,148)
Future income tax reduction (expense)	<b>133,448</b>	63,951	<b>282,639</b>	114,894
<b>NET LOSS and COMPREHENSIVE LOSS</b>	<b>(412,331)</b>	(151,899)	<b>(807,034)</b>	(192,254)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(2,061,936)</b>	(240,968)	<b>(1,667,233)</b>	(200,613)
<b>DEFICIT, END OF PERIOD</b>	<b>(2,474,267)</b>	(392,867)	<b>(2,474,267)</b>	(392,867)
NET LOSS PER SHARE (note 6f) – basic and diluted	<b>(\$0.01)</b>	(\$0.01)	<b>(\$0.02)</b>	-

*See accompanying notes to financial statements*

**FORENT ENERGY LTD.**  
**Statements of Cash Flows**  
**For the three and six months ended June 30, 2009 and 2008**  
**(unaudited)**

	Three months ended June 30, 2009 (\$)	Three months ended June 30, 2008 (\$)	Six months ended June 30, 2009 (\$)	Six months ended June 30, 2008 (\$)
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING</b>				
Net loss	(412,331)	(151,899)	(807,034)	(192,254)
Add items not affecting cash				
Stock based compensation	104,556	28,676	201,020	44,765
Depletion, depreciation and accretion	205,729	55,522	393,358	97,416
Future income tax expense	(133,448)	(63,951)	(282,639)	(114,894)
	<b>(235,494)</b>	(131,652)	<b>(495,295)</b>	(164,967)
Change in non-cash working capital	(35,310)	460,444	(380,525)	392,096
	<b>(270,804)</b>	328,792	<b>(875,820)</b>	227,129
<b>FINANCING</b>				
Issue of common shares and warrants	-	-	-	-
Change in non-cash working capital	-	-	-	-
	-	-	-	-
<b>INVESTING</b>				
Acquisition of property, plant and equipment	(99,065)	(378,192)	(359,954)	(500,836)
Purchase of assets	-	-	1,000	-
Proceeds from sale of assets	(10,715)	-	(10,715)	-
Change in non-cash working capital	(57,276)	501,664	(64,376)	685,802
	<b>(167,056)</b>	123,472	<b>(434,045)</b>	184,966
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(437,860)</b>	452,264	<b>(1,309,865)</b>	412,095
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>1,111,520</b>	1,440,547	<b>1,983,525</b>	1,480,716
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>673,660</b>	1,892,811	<b>673,660</b>	1,892,811
CASH INTEREST PAID	-	14,772	222	27,215

See accompanying notes to financial statements

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

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**1. NATURE OF OPERATIONS**

Forent Energy Ltd. (the "Company" or "Forent") was incorporated as a private company pursuant to the provisions of the Alberta Business Corporations Act on April 6, 1999. On December 18, 2008 Forent Energy Ltd. amalgamated with a wholly owned subsidiary of Seriatim Ventures Inc. a publicly listed company, at which time the public company changed its name to Forent Energy Inc. On March 1, 2009, pursuant to a short form amalgamation with its wholly-owned subsidiary, Forent Energy Ltd, Forent Energy Inc. changed its name to Forent Energy Ltd. The Company is engaged in the exploration, development and production of petroleum and natural gas reserves in Nova Scotia and Western Canada.

**2. BASIS OF PRESENTATION**

The interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as the financial statements for the fiscal year ended period December 31, 2008, except as disclosed below. The disclosures provided herein are incremental to, and should be read in conjunction with the annual financial statements and notes for the year ended December 31, 2008.

**3. CHANGE IN ACCOUNTING POLICIES**

Effective January 1, 2008, the Company adopted CICA Handbook Section 1400, "General standards of Financial Statement Presentation". This section provides guidance related to management's assessment of the Company's ability to continue as a going concern. The additional requirement requires management to make an assessment of the Company's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The adoption of this standard had no impact on the Company's presentation of its financial position.

The new "Inventories" standard replaces the previous standard and requires the consistent grouping of like assets and the application of the first-in-first-out or weighted average cost formula methodology. Spare parts inventory are tangible assets with a useful life that extends beyond one year and are held for re-deployment rather than re-sale. As such, they have been included in property and equipment and are depreciated on a per unit of production basis. Adoption of this standard has had no impact on the Company's net earnings or cash flow.

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.

*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 is currently in the process of developing an implementation strategy to establish timelines and identify significant differences between Canadian GAAP and IFRS.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**3. CHANGE IN ACCOUNTING POLICIES (continued)**

Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there may be significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. The Company is assessing the potential impact of this changeover and developing its plan accordingly. The Company will update its IFRS changeover plan to reflect new and amended accounting standards issued by the International Accounting Standards Board.

**4. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
<b>June 30, 2009</b>			
Petroleum and natural gas properties and equipment	8,072,093	932,420	7,139,673
Other	82,988	43,416	39,572
	<b>8,155,081</b>	<b>975,836</b>	<b>7,179,245</b>
<b>December 31, 2008</b>			
Petroleum and natural gas properties and equipment	7,686,194	557,970	7,128,224
Other	82,383	35,385	46,998
	<b>7,768,577</b>	<b>593,355</b>	<b>7,175,222</b>

As of June 30, 2009, the cost of petroleum and natural gas properties includes \$1.2 million (December 31, 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 \$2.0 million (December 31, 2008 - \$2.0 million) are included in the depletion calculation.

**5. ASSET RETIREMENT OBLIGATION**

The future asset retirement obligations result from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. As at June 30, 2009, the Company has estimated the total undiscounted asset retirement obligation as \$697,630 (2008 - \$648,360) to be incurred over the next 40 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 obligation.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**5. ASSET RETIREMENT OBLIGATION (continued)**

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

	June 30, 2009	December 31, 2008
	(\$)	(\$)
Asset retirement obligation, beginning of period	332,089	230,351
Increase in obligations during the period	19,925	55,011
Liabilities incurred	(5,063)	-
Revision in cost estimate	1,973	37,637
Accretion expense	10,877	9,090
Asset retirement obligation, end of period	359,801	332,089

**6. 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	June 30, 2009		December 31, 2008	
	Shares	Amount	Shares	Amount
	(#)	(\$)	(#)	(\$)
<b>Common shares</b>				
Common shares, beginning of period	49,872,476	8,738,635	20,288,700	5,320,641
Issued pursuant to flow-through share offering	-	-	3,048,700	3,418,375
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
Share issue costs	-	-	-	(290,757)
Tax effect of flow-through share renounced	-	(1,063,722)	-	(491,641)
Common shares, end of period	49,872,476	7,674,913	49,872,476	8,738,635

**FORENT ENERGY LTD.**  
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**6. SHARE CAPITAL (continued)**

On December 18, 2008 the Company completed an acquisition in the form of a reverse takeover ("RTO") of Seriatim Ventures Inc. ("Seriatim"). Pursuant to the RTO the shareholders of Forent received 5.5 common shares of Seriatim for each issued and outstanding Forent share owned and then immediately following the RTO all outstanding securities were consolidated on a 2.7 for 1 basis. The effective share transactions resulted in 23,337,400 common shares being cancelled and replaced with 47,539,146 Forent common shares issued to existing Forent shareholders and 2,333,330 common shares issued to Seriatim shareholders. The purchase allocation of Seriatim consisted of \$782,017 of fair valued assets and liabilities, being primarily cash. Share issue costs of \$142,425 were incurred on the transaction.

On August 19, 2008, the Company completed a private placement whereby the Company issued 3,048,700 flow-through units at a price of \$1.15 per unit for total gross proceeds of \$3,506,005 (\$3,418,375 net). Each unit consisted of one common share to be issued on a flow-through basis, one-tenth of a common share purchase warrant and one liquidity warrant to convert into one tenth of a common share should the company not become a public company by year end (Forent became a public entity on December 18, 2008 and none of the liquidity warrants were exercised). Each whole common share purchase warrant may be exercised to acquire one common share of the Company at a price of \$1.10 for a period of 12 months from the date of the listing of the Company on a recognized Canadian stock exchange. The common shares issued on August 19, 2008, included a price protection provision that required the Company to equalize the number of shares issued upon the Company issuing new shares on or before to December 31, 2008, if the new share issuance price was below \$1.10 for each regular common share and \$1.15 per flow-through share (no shares were issued subsequent to the August 19, 2008 financing). In addition, the purchasers of the common shares were granted a right of first refusal to purchase their pro rata share (based on its percentage of outstanding common shares of the Company, calculated on a post-investment, as-converted and voting basis) of any equity securities offered by the Company on the same price and terms and conditions as the Company offers such securities to others, at any time prior to December 31, 2009.

In connection with the offering on August 19, 2008, the agents received a 5% cash commission and broker warrants equaling 5% of the transaction value for a total of 175,300 warrants. These warrants are exercisable at \$1.00 to purchase Forent common shares for a period of 12 months from the date of the listing of the Company on a recognized Canadian stock exchange.

(c) *Contributed Surplus*

	<b>June 30, 2009</b>	December 31, 2008
	(\$)	(\$)
Contributed surplus, beginning of year	<b>645,910</b>	160,274
Stock-based compensation expense	<b>201,020</b>	441,196
Issuance of options pursuant to reverse takeover	-	44,440
Contributed surplus, end of period	<b>846,930</b>	645,910

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**6. SHARE CAPITAL (continued)**

(d) *Share Purchase Warrants*

	June 30, 2009			December 31, 2008		
	Shares	Amount	Weighted Average Exercise Price	Shares	Amount	Weighted Average Exercise Price
	(#)	(\$)	(\$)	(#)	(\$)	(\$)
<b>Warrants</b>						
Warrants, beginning of period	<b>1,777,956</b>	<b>326,446</b>	<b>0.51</b>	4,122,650	182,716	1.68
Issue of warrants	-	-	-	304,870	87,630	1.10
Broker warrants	-	-	-	175,300	56,100	1.00
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	<b>1,777,956</b>	<b>326,446</b>	<b>0.51</b>	1,777,956	326,446	0.51

In connection with the reverse takeover on December 18, 2008, the Company cancelled a total of 872,820 warrants, consisting of 413,270 share purchase warrants and 459,550 broker warrants and issued 1,777,956 replacement share purchase warrants based on the same exchange ratio (5.5 for 1) as applied to the Company's common shares and the exercise or conversion prices of all such convertible securities were amended accordingly. All other terms (i.e. vesting provisions, expiry dates, etc.) remain identical to the terms originally granted by Forent. Immediately after completion of the Acquisition, the Corporation consolidated all of its outstanding securities on a 2.7 for 1 basis.

On October 7, 2008, the Company cancelled 3,730,000 performance warrants at an exercise price of \$1.75 (to November 30, 2008, after which the exercise price was to increase to \$2.25) under the performance warrant compensation plan and replaced the plan with the issuance of a reduce number of Company stock options. Prior to the conversion to stock options, 780,000 performance warrants were cancelled, resulting in a net outstanding number of 2,950,000 performance warrants, which were converted on a 2:1 ratio into 1,475,000 Company stock options.

In connection with the private placement on August 19, 2008, the Company issued 304,870 common share purchase warrants and 304,870 liquidity warrants to be converted into one tenth of a common share should the company not become a public company by December 31, 2008. As the Company became a public entity prior to December 31, 2008, none of the liquidity warrants were exercisable. The common share purchase warrants may be exercised to acquire one common share of the Company at a price of \$1.10 for a period of 12 months from the date of listing the Company on a recognized Canadian stock exchange. The fair value of \$87,630 assigned to these warrants was calculated using the Black-Scholes option pricing model with the following assumptions: dividends 0%, expected volatility 80%, risk-free interest rate 2.67% and an expected life of 1 year.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and six months ended June 30, 2009 and 2008**

**6. SHARE CAPITAL (continued)**

In connection with the August 19, 2008 private placement, the agents received a 5% cash commission and broker warrants equaling 5% of the transaction value for a total of 175,300 warrants. These warrants are exercisable at \$1.00 to purchase Forent common shares for a period of 12 months from the date of the listing of the Company on a recognized Canadian stock exchange. The fair value of \$56,100 assigned to these warrants was calculated using the Black-Scholes option pricing model with the following assumptions: dividends 0%, expected volatility 80%, risk-free interest rate 2.67% and an expected life of 1 year.

(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 or, 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 such committee.

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 20% of the total issued and outstanding common shares as of December 18, 2008 or 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.

Options granted under the plan generally have a 5 year term and vest as determined by the Board of Directors. The exercise price of each option equals the market value of the Company's common shares at the date of grant.

	<b>June 30, 2009</b>		December 31, 2008	
	<b>Number of</b>	<b>Weighted</b>		<b>Weighted</b>
	<b>Options</b>	<b>Average</b>	<b>Number of</b>	<b>Average</b>
		<b>Exercise</b>	<b>Options</b>	<b>Exercise</b>
	<b>(#)</b>	<b>Price</b>	<b>(#)</b>	<b>Price</b>
		<b>(\$)</b>		<b>(\$)</b>
Beginning of period	<b>7,070,554</b>	<b>0.49</b>	1,880,000	1.00
Expired	<b>(61,111)</b>	<b>0.49</b>	(10,000)	1.00
Cancelled	-	-	(1,870,000)	1.00
Granted	<b>765,000</b>	<b>0.25</b>	-	-
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	<b>7,774,443</b>	<b>0.47</b>	7,070,554	0.49

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**6. SHARE CAPITAL (continued)**

As at June 30, 2009, the weighted average remaining life of the options outstanding was 3.77 years (2008 – 3.93 years).

As at June 30, 2009, 4,018,763 options were exercisable between \$0.25 and \$0.54 per share with a weighted average exercise price of \$0.48 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 options are subject to a four month hold period expiring August 30, 2009.

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: option value \$0.05; risk-free interest rate: 1.94%; volatility: 72%; and expected life: 3.5 years.

In 2008 the Company issued 3,809,260 stock options to certain employees, directors and consultants, as a result of the cancellation of 1,870,000 existing stock options, due to the reverse take-over of Seriatim Ventures Inc. Pursuant to the share exchange ratio under the RTO (5.5:1) and the subsequent 2.7:1 consolidation, the original 1,870,000 stock options were converted into new options on the basis of 2.037 new options for each existing option, with a commensurate adjustment to the exercise price. The stock options have a life of 5 years and one third vested on the date of grant and one third of the total options shall vest on each of the first and second anniversary dates from the original option grant date of October 17, 2007.

In October 2008 the Company issued 1,475,000 stock options to certain employees, directors and consultants, which were converted to 3,004,630 at year end as a result of the Seriatim reverse take-over, as a result of the cancellation of performance warrants originally granted in 2007. The stock options have a life of 5 years and one third vested on the date of grant and one third of the total options shall vest on each of the first and second anniversary dates from the original option grant date of October 7, 2008.

In connection with the reverse take-over the company issued 256,664 stock options. The issuance included 183,332 stock options to consultants of Seriatim at an exercise price of \$0.54 that expire on December 18, 2009, being the first anniversary date of the RTO; 50,000 stock options to a board member of Seriatim that joined the Forent board at an exercise price of \$0.54 that expire on December 27, 2011, and 23,332 stock options to two registered charities, at an exercise price of \$0.54 that expire on December 27, 2016. All of the aforementioned options shall vest fully at the time of grant.

Exercise Price	Number Outstanding (#)	Weighted Average Remaining Life (years)	Number of Options Exercisable (#)
As at June 30, 2009			
\$0.25	765,000	4.83	255,000
\$0.49	6,752,779	3.73	3,507,099
\$0.54	256,664	1.52	256,664
	7,774,443	3.77	4,018,763

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**6. SHARE CAPITAL (continued)**

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.

During the year ended December 31, 2008 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 in 2008 were as follows: ranging \$0.12 to \$0.37; risk-free interest rate: 2.60% to 2.90%; volatility: 80%; and expected life: 1 to 10 years.

(f) *Per share amounts*

Basic per share amounts have been calculated using the weighted average number of common shares outstanding during the year, retroactively adjusted for the share split and consolidation in 2008. 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 totaling 9,552,399 (2008 – 9,236,476 adjusted for share split and consolidation) were excluded from the dilution calculation, as they were anti-dilutive.

**7. 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 (i.e. oil and natural gas exploration and development) and the working capital requirements of each annual operating cycle, while also seeking to minimize the risk-adjusted cost of capital.

Capital is raised and retained for the purposes of funding oil and natural gas exploration and development and funding corporate overhead costs, subject to the availability of financing on acceptable terms. The Company determines the amount of capital to be raised and retained based on Forent's cash flow from operations and the scope of its planned exploration and development activities and management's assessment of the expected availability of acceptably priced capital in future periods. In 2008, Forent increased its capital through an equity offering and a reverse takeover of a publicly traded company to enhance access to capital in the public equity markets, in order to maximize the probability of raising sufficient capital to continue the development of the Alton Block and initiate development of the Beech Hill Block, both of which are in Nova Scotia. During the six month period ended June 30, 2009 the Company did not raise any new equity. Raising capital through subsequent equity offerings is not a certainty, as it is dependent on the availability of funds in the capital markets.

The Company defines capital as shareholders' equity, plus debt plus working capital. 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 and the development stage of its operations in Nova Scotia.

The management of externally financed working capital is, by necessity, a major function of Forent's capital management program given that its major assets are exploration stage oil and gas properties, without production in Nova Scotia, that require significant additional capital expenditures. The primary source of working capital is equity financing obtained through the sale of common and flow-through shares and share purchase warrants and the exercise of warrants and options. In the normal course of business, the Company receives trade credit that is supplementary to equity financings. At the present time, the Company does not consider significant debt to be a sustainable source of capital due to the inherent risks of discovery in oil

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and natural gas exploration. The Company has borrowed in the past in order to fund development infrastructure for its Alberta properties and while it might do so in the future, it is unlikely to significantly increase debt until such time as its cash flow from operations can support such an increase.

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 June 30, 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.

Financing, and thus capital spending on exploration, will generally be limited to the extent that capital is available on acceptable terms. The acceptability of financing terms is generally determined by reference to the prevailing market price of the Company's shares.

**8. FINANCIAL INSTRUMENTS**

(a) *Fair values*

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the relatively short-term maturity of these financial instruments.

(b) *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.

(c) *Commodity price risk*

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and may initiate instruments to manage exposure to these risks when it deems necessary. There were no commodity price risk contracts outstanding during the six month period ending June 30, 2009 or for the year ended December 31, 2008.

(d) *Interest Rate Risk*

The Company manages its exposure to interest rate risk by entering into fixed rate loan agreements wherever possible.

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**9. 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 that approximates the fair market value of the services. During the three and six months ended June 30, 2009 the Company had the following related party transactions:

The Company incurred \$30,000 and \$60,000 (2008 - \$30,000 and \$60,000) of administrative costs from a company controlled by the majority shareholder during the three and six months ended June 30, 2009, respectively. As at June 30, 2009, there was an outstanding balance of \$10,000 (2008 - \$10,000) to the related company.

During the three and six months ended June 30, 2009, the Company incurred \$134,174 and \$268,624 (2008 - \$78,847 and \$137,513), respectively, of gross operating costs relating to pipeline and facility rental fees from a company controlled by the majority shareholder. As at June 30, 2009, there was a gross outstanding balance of \$89,358 (2008 - \$93,970) 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 has an interest in has a working interest in some of the wells that the Company operates. As at June 30, 2009, there was an outstanding balance of \$20,255 (2008 - \$18,546) due the related company.

During the three and six months ended June 30, 2009 the Company incurred \$nil and \$23,431 (2008 - \$5,977 and \$6,561), respectively, for legal services with a law firm of which a board member is a partner. As at June 30, 2009, there was an outstanding balance due the related party of \$7,702 (2008 - \$99,333).

During the three and six months ended June 30, 2009 a company that an officer and director has an interest in, was paid a total of \$30,000 and \$60,000 (2008 - \$nil and \$nil), respectively for the provision of administrative services. As at June 30, 2009, there was an outstanding balance of \$10,000 (2008 - \$10,000) due the related party.

**10. COMMITMENTS**

(a) *Flow-through share obligations*

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 June 30, 2009 the Company has incurred approximately \$2.5 million of qualifying expenditures, with approximately \$1.0 million remaining to be spent by December 31, 2009.

(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
	<u>2,070,000</u>

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**10. COMMITMENTS (continued)**

(c) *Alton Block commitment*

On February 12, 2009 Forent received approval from the Minister of Energy for the province of Nova Scotia, the Hon. Barry Barnett, for the renewal and extension of the Company's exploration agreement for 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
	<u>2,350,000</u>

(d) *Operating leases*

The Company is committed to operating leases for office space in accordance with the following schedule.

	(\$)
2009	101,778
2010	206,583
2011	122,273
	<u>430,634</u>

## CORPORATE INFORMATION

### **DIRECTORS**

Dennis Forgeron  
Thomas E. Lester\*  
Douglas Porter\*  
Scott Reeves  
Wayne Rousch\*  
Ian Shook

*\*Member Audit Committee*

### **OFFICERS**

Dennis Forgeron, President & CEO  
Thomas E. Lester, Chief Financial Officer  
Ian Shook, Vice President Exploration  
Scott Reeves, Corporate Secretary

### **EXECUTIVE OFFICE**

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### **LEGAL COUNSEL**

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### **BANKERS**

National Bank of Canada

### **AUDITORS**

PricewaterhouseCoopers LLP

### **EVALUATION ENGINEERS**

Sroule Associates Limited  
Calgary, Alberta

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