

# Forent Energy Ltd.

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## **Financial Statements For the Three and Nine months ended September 30, 2010 and 2009**

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 periods ended September 30, 2010 and 2009.

**FORENT ENERGY LTD.**  
**Balance Sheets**  
**As at September 30, 2010 and December 31, 2009**  
**(unaudited)**

	<b>September 30, 2010 (\$)</b>	<b>December 31, 2009 (\$)</b>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	1,754,720	1,701,523
Accounts receivable	874,881	667,541
Prepays and other assets	240,901	164,315
	<b>2,870,502</b>	<b>2,533,379</b>
Property, plant and equipment (note 4)	<b>11,955,646</b>	8,654,743
	<b>14,826,148</b>	<b>11,188,122</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	1,794,436	1,350,454
Asset retirement obligation (note 5)	638,073	408,703
Future tax liability	820,822	738,841
	<b>3,253,331</b>	<b>2,497,998</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 6b)	13,428,834	10,094,720
Warrants (note 6d)	1,436,229	713,781
Contributed surplus (note 6c)	1,386,355	1,166,576
Retained earnings (deficit)	(4,678,601)	(3,284,953)
	<b>11,572,817</b>	<b>8,690,124</b>
	<b>14,826,148</b>	<b>11,188,122</b>
Commitments (note 11)		

*See accompanying notes to financial statements*

**FORENT ENERGY LTD.****Statements of Operations and Comprehensive Loss and Deficit****For the three and nine months ended September 30, 2010 and 2009****(unaudited)**

	Three months ended September 30, 2010 (\$)	Three months ended September 30, 2009 (\$)	Nine months ended September 30, 2010 (\$)	Nine months ended September 30, 2009 (\$)
<b>REVENUE</b>				
Oil and natural gas income	<b>843,006</b>	98,180	<b>1,693,933</b>	411,348
Royalties	<b>(91,438)</b>	(25,113)	<b>(211,049)</b>	(57,664)
Interest income	<b>293</b>	6,123	<b>293</b>	12,618
	<b>751,861</b>	79,190	<b>1,483,177</b>	366,302
<b>EXPENSES</b>				
Operating and production	<b>426,130</b>	172,967	<b>894,063</b>	412,900
General and administrative	<b>244,272</b>	208,519	<b>780,054</b>	726,061
Interest expense	<b>9,631</b>	26,869	<b>12,847</b>	51,801
Stock based compensation (note 6e)	<b>58,697</b>	89,330	<b>219,779</b>	290,350
Foreign exchange loss (gain)	<b>22,654</b>	-	<b>4,596</b>	-
Depletion, depreciation and accretion	<b>570,525</b>	211,328	<b>1,294,428</b>	604,686
	<b>1,331,909</b>	709,013	<b>3,205,767</b>	2,085,798
<b>LOSS BEFORE INCOME TAXES</b>	<b>(580,048)</b>	(629,823)	<b>(1,722,590)</b>	(1,719,496)
Future income tax reduction	<b>62,816</b>	168,905	<b>328,942</b>	451,544
<b>NET LOSS and COMPREHENSIVE LOSS</b>	<b>(517,232)</b>	(460,918)	<b>(1,393,648)</b>	(1,267,952)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(4,161,369)</b>	(2,474,267)	<b>(3,284,953)</b>	(1,667,233)
<b>DEFICIT, END OF PERIOD</b>	<b>(4,678,601)</b>	(2,935,185)	<b>(4,678,601)</b>	(2,935,185)
NET LOSS PER SHARE (note 6f) – basic and diluted	<b>(\$0.01)</b>	(\$0.01)	<b>(\$0.02)</b>	(\$0.03)

*See accompanying notes to financial statements*

**FORENT ENERGY LTD.**  
**Statements of Cash Flows**  
**For the three and nine months ended September 30, 2010 and 2009**  
**(unaudited)**

	Three months ended September 30, 2010 (\$)	Three months ended September 30, 2009 (\$)	Nine months ended September 30, 2010 (\$)	Nine months ended September 30, 2009 (\$)
<b>CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING</b>				
Net loss	(517,232)	(460,918)	(1,393,648)	(1,267,952)
Add items not affecting cash				
Stock based compensation	58,697	89,330	219,779	290,350
Depletion, depreciation and accretion	570,525	211,328	1,294,428	604,686
Future income tax expense	(62,816)	(168,905)	(328,942)	(451,544)
	49,174	(329,165)	(208,383)	(824,460)
Change in non-cash working capital	192,014	214,654	(399,386)	(165,871)
	241,188	(114,511)	(607,769)	(990,331)
<b>FINANCING</b>				
Issue of common shares and warrants	-	-	4,501,969	-
Share issue costs	-	-	(34,484)	-
Change in non-cash working capital	-	-	-	-
	-	-	4,467,485	-
<b>INVESTING</b>				
Acquisition of property, plant and equipment	(1,662,840)	(296,313)	(4,316,925)	(654,267)
Purchase of assets	-	(2,000)	(49,036)	(3,000)
Proceeds from sale of assets	-	30,196	-	19,481
Change in non-cash working capital	199,646	(82,391)	559,442	(146,767)
	(1,463,194)	(350,508)	(3,806,519)	(784,553)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,222,006)</b>	<b>(465,019)</b>	<b>53,197</b>	<b>(1,774,884)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>2,976,726</b>	<b>673,660</b>	<b>1,701,523</b>	<b>1,983,525</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>1,754,720</b>	<b>208,641</b>	<b>1,754,720</b>	<b>208,641</b>
CASH INTEREST PAID	-	10,886	28,516	11,108

See accompanying notes to financial statements

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and nine months ended September 30, 2010 and 2009**

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**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. FINANCIAL PRESENTATION AND POLICIES**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2009, except as described below. The disclosures included below are incremental to those included with the annual consolidated financial statements. These financial statements do not include all the information and disclosure required by GAAP for annual financial statements, and should be read in conjunction with the financial statements for the year ended December 31, 2009.

Preparation of the financial statements requires management 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.

**3. CHANGE IN ACCOUNTING POLICIES**

On January 1, 2010 the Company adopted the following Canadian Institutes of Chartered Accountants ("CICA") Handbook sections:

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 this standard will impact the accounting treatment of future business combinations entered into after January 1, 2010.

"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. The adoption of this standard had no 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. The adoption of this standard had no material impact on the Company'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 comprehensive changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. Although the full impact of IFRS on the Company's financial statements is not entirely determinable at this time, the Company has

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

completed its analysis of accounting policy alternatives and determined the areas that will be most significantly affected by the adoption of IFRS. The Company expects that its 2010 IFRS opening balance sheet will be audited by PricewaterhouseCoopers before the end of 2010. We continue to monitor any new or amended IFRS pronouncements issued by the International Accounting Standards Board that could affect our choice of accounting policies, including the new joint venture standard that is expected to be published later in 2010.

**4. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated Depletion and Depreciation	Net Book Value
	\$	\$	\$
<b>September 30, 2010</b>			
Petroleum and natural gas properties and equipment	14,646,802	2,716,937	11,929,865
Other	85,321	59,540	25,781
	<b>14,732,123</b>	<b>2,776,477</b>	<b>11,955,646</b>
<b>December 31, 2009</b>			
Petroleum and natural gas properties and equipment	10,081,307	1,458,106	8,623,201
Other	82,988	51,446	31,542
	<b>10,164,295</b>	<b>1,509,552</b>	<b>8,654,743</b>

As of September 30, 2010, the cost of petroleum and natural gas properties includes \$3.1 million (2009 - \$1.3) 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 (2009 - \$2.1 million) are included in the depletion calculation.

During the period the Company capitalized \$108,000 (2009 - \$0.1 million) of direct general & administrative costs associated with petroleum and natural gas assets.

**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 September 30, 2010, the Company has estimated the total undiscounted asset retirement obligation as \$0.9 million (2009 - \$0.8) to be incurred over the next 30 years. The Company used a credit adjusted risk free rate of 7.5% (2009 - 7.5%) and an estimated inflation rate of 2.5% (2009 - 2.5%) to calculate the present value of the asset retirement obligations, which are reflected in the financial statements and the following table.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and nine months ended September 30, 2010 and 2009**

**5. ASSET RETIREMENT OBLIGATION (continued)**

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

	September 30, 2010	December 31, 2009
	(\$)	(\$)
Asset retirement obligation, beginning of period	408,703	332,089
Increase in obligations during the period	203,182	71,378
Decrease in obligations from disposals during the period	-	(16,573)
Liabilities incurred	-	(5,063)
Revision in cost estimate	(1,315)	1,973
Accretion expense	27,503	24,899
Asset retirement obligation, end of period	638,073	408,703

**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	September 30, 2010		December 31, 2009	
	Shares	Amount	Shares	Amount
	(#)	(\$)	(#)	(\$)
<b>Common shares</b>				
Balance, beginning of period	69,937,686	10,094,720	49,872,476	8,738,635
Issued pursuant to acquisition of Edelex	327,771	81,969	-	-
Issued pursuant to private placements	21,470,455	3,697,552	20,065,210	2,825,240
Share issue costs	-	(24,644)	-	(405,433)
Tax effect of flow-through shares renounced	-	(420,763)	-	(1,063,722)
Common shares, end of period	91,735,912	13,428,834	69,937,686	10,094,720

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. The common shares and flow-through common shares were valued at \$3,697,552 and the warrants were valued at \$722,448. Fees associated with the private placement consisted of \$32,324 in regulatory and legal expenses.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and nine months ended September 30, 2010 and 2009**

**6. SHARE CAPITAL (continued)**

The future income tax benefit associated with the share issue costs was \$9,217, resulting in net share issuance costs of \$23,107.

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. Gross fees associated with the acquisition consisted of \$2,160 in regulatory and legal expenses. The future income tax benefit associated with the share issue costs was \$623, resulting in net share issuance costs of \$1,537. Immediately following the acquisition, Edelex amalgamated with Forent.

(c) *Contributed Surplus*

	September 30, 2010	December 31, 2009
	(\$)	(\$)
Contributed surplus, beginning of period	1,166,576	645,910
Stock-based compensation expense, employees and directors	219,779	376,936
Expiry of warrants	-	143,730
Contributed surplus, end of period	1,386,355	1,166,576

(d) *Share Purchase Warrants*

	September 30, 2010			December 31, 2009		
	Warrants	Amount	Weighted Average Exercise Price	Warrants	Amount	Weighted Average Exercise Price
	(#)	(\$)	(\$)	(#)	(\$)	(\$)
<b>Warrants</b>						
Warrants, beginning of period	7,918,255	713,781	0.20	1,777,956	326,446	0.51
Issue of warrants	7,587,500	722,448	0.26	5,111,900	381,370	0.17
Broker warrants	-	-	-	2,006,521	149,695	0.17
Expiry of warrants, transferred to contributed surplus	-	-	-	(978,122)	(143,730)	0.52
Warrants, end of period	15,505,755	1,436,229	0.23	7,918,255	713,781	0.20

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

In connection with the April 15, 2010 non-brokered private placement the Company issued 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. The 7,587,500 warrants issued as part of the units were valued at \$722,448.

The Company calculated the fair value of the unit warrants issued on April 15, 2010, using the Black-Scholes option pricing model at the non-brokered 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: 114%; risk-free interest rate: 1.29%; and expected life: 2.0 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.

On May 12, 2010, the Company granted stock options to acquire up to an aggregate of 945,000 common shares of Forent to certain directors, officers, employees and consultants of the Company and to certain charitable organizations. Each of the options is exercisable for a five year term expiring on May 12, 2015 and exercisable until that time at a price of \$0.30 per common share. One-fourth of the options vest immediately upon the date of grant with an additional one-fourth to vest on each of the six month, twelve month and eighteen month anniversaries of the grant date. The options are subject to a four month hold period that expired on September 12, 2010.

The Company determined a fair value of \$219,704 for the stock options granted, using the Black-Scholes option pricing model as 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 May 12, 2010 were as follows: dividend rate: 0%; expected volatility: 114%; risk-free interest rate: 2.53%; and expected life: 5.0 years.

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 10% of the Company's outstanding 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.

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

As at September 30, 2010 and December 31, 2009, the following stock options were outstanding.

	September 30, 2010		December 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Beginning of period	4,841,110	0.47	7,070,554	0.49
Expired	-	-	(183,332)	0.54
Cancelled	-	-	(2,811,112)	0.49
Granted	945,000	0.30	765,000	0.25
End of period	5,786,110	0.43	4,841,110	0.47

As at September 30, 2010, the weighted average remaining life of the options outstanding was 2.99 years (2009 – 3.25 years).

As at September 30, 2010, 4,201,064 options were vested and exercisable between \$0.25 and \$0.54 per share with a weighted average exercise price of \$0.45 per share (2009 – \$0.47 per share).

Option Exercise Price	Number Outstanding	Weighted Average Remaining Life	Number of Options Exercisable
	(#)	(years)	(#)
As at September 30, 2010			
\$0.25	765,000	3.58	510,000
\$0.30	945,000	4.62	236,250
\$0.49	4,002,778	2.50	3,381,482
\$0.54	73,332	2.83	73,332
	5,786,110	2.99	4,201,064

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. Charitable options are fully expensed in the period of initial granting. 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 period. 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 21,291,865 (2009 – 8,848,521) were excluded from the dilution calculation, as they were anti-dilutive.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
**Three and nine months ended September 30, 2010 and 2009**

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**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 related to oil and natural gas exploration and development, as well as, 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. 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 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 September 30, 2010, Forent had adequate capital to complete its minimum business development plans for the following twelve month period. Additional capital raised will 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 September 30, 2010 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.

**8. 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.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**8. FINANCIAL RISK MANAGEMENT (continued)**

As at September 30, 2010, accounts receivable and their respective aging were comprised of the following.

Aging of receivables	0 to 30 days	31 to 90 days	91 + days	Total
	(\$)	(\$)	(\$)	(\$)
Sales and accrued revenues	267,069	1,149	-	268,218
Joint interest billings with partners	69,233	134,013	184,381	387,627
Goods and service tax credit and Harmonized sales tax credit	218,197	-	-	218,197
Other receivables	-	209	630	839
Accounts receivable	554,499	135,371	185,011	874,881

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

Aging of receivables	0 to 30 days	31 to 90 days	91 + days	Total
	(\$)	(\$)	(\$)	(\$)
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

**(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 September 30, 2010 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	1,794,436	-	-	-	1,794,436

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**8. FINANCIAL RISK MANAGEMENT (continued)**

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

(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

As at the period ended September 30, 2010 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 September 30, 2010.

**9. FINANCIAL INSTRUMENTS**

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

	September 30, 2010	December 31, 2009
	(\$)	(\$)
<b>Financial assets</b>		
<i>Held-for-trading</i>		
Deposits	197,326	122,400
<i>Receivables</i>		
Accounts receivable	874,881	667,541
<b>Financial liabilities</b>		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	1,794,436	1,350,454

**FORENT ENERGY LTD.**  
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**9. FINANCIAL INSTRUMENTS (continued)**

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 three months ended period of September 30, 2010.

**10. 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 three and nine months ended September 30, 2010 and 2009, the Company had the following related party transactions:

During the three and nine months ended September 30, 2010, the Company incurred \$25,997 and \$79,492 (2009 - \$27,719 and \$86,986), respectively, of net operating costs relating to pipeline and facility rental fees from a company controlled by a significant shareholder. As at September 30, 2010, there was an outstanding balance of \$8,166 (2009 - \$18,723) owed to the related company. The pipeline and facility rental fees and outstanding balance have been incurred on facilities that the Company operates with approximately 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.

During the three and nine months ended September 30, 2010, the Company incurred \$2,422 and \$2,422, respectively, of operating costs relating to pipeline compressor rental fees from a company controlled by a board member. The board member became a related party upon acceptance of the board position effective September 1, 2010. As at September 30, 2010, there was an outstanding balance of \$2,422 owed to the related company.

During the three and nine months ended September 30, 2010 the Company incurred \$36,385 and \$42,612 (2009 - \$7,070 and \$30,501), respectively, for legal services with a law firm of which a board member is a partner. As at September 30, 2010, there was an outstanding balance due the related party of \$26,915 (2009 - \$7,737).

**11. COMMITMENTS**

(a) *Flow-through share obligations*

On April 15, 2010, the Company issued flow-through shares requiring that \$1,385,000 in qualifying exploration expenditures be expended by December 31, 2011. As at September 30, 2010 the Company has incurred approximately \$1.3 million of qualifying expenditures, with approximately \$0.1 million remaining to be spent by December 31, 2011.

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 September 30, 2010 the Company has incurred the full amount of qualifying expenditures.

**FORENT ENERGY LTD.**  
**Notes to Financial Statements**  
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**11. COMMITMENTS (continued)**

(b) *Aerial Gravity Gradiometry Survey of Alton Block*

On April 21, 2010 the Company signed a definitive agreement with ARKeX Ltd. for a \$US1.4 million (estimated CDN\$1.5 million) gravity gradiometry survey of its Alton Block in Nova Scotia. The aerial survey commenced at the end of May and was completed in October 2010, with the interpretation of the data expected to be completed in December 2010. The Company paid an instalment of 50% of the total cost upon the aircraft arriving in Nova Scotia and subsequent to the third quarter ended paid an instalment of 40%. The remaining 10% is to be paid at the time of delivery of the final processed data.

(c) *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

(d) *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

(e) *Office Lease*

Effective April 1, 2010 the Company entered into a monthly office lease. The following schedule summarizes the commitment remaining for 2010 as at September 30, 2010 and the 2011 commitment up to the lease expiry date of July 31, 2011.

	(\$)
2010	28,421
2011	66,316
	94,737

**CORPORATE INFORMATION**

**DIRECTORS**

W. Brett Wilson<sup>1,2</sup>  
John A. Forgeron  
Thomas E. Lester  
Douglas Porter<sup>1</sup>  
Scott Reeves  
Wayne Rousch<sup>1</sup>

<sup>1</sup> *Member of the Audit Committee*

<sup>2</sup> *Chairman of the Board*

**OFFICERS**

Thomas E. Lester, President & CEO, CFO  
Ian Shook, Vice President Exploration  
Scott Reeves, Corporate Secretary

**EXECUTIVE OFFICE**

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