Financial Statements
Three and six months ended June 30, 2011 and 2010

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 June 30, 2011 and 2010.

FORENT ENERGY LTD.
Consolidated Statements of Financial Position
As at June 30, 2011 and December 31, 2010 and January 1, 2010
(Canadian dollars)(unaudited)

	Note	June 30, 2011 ($)	December 31, 2010 ($) (note 15)	January 1, 2010 ($) (note 15)
ASSETS				
Current assets				
Cash and cash equivalents		**2,301,971**	590,609	1,701,523
Accounts receivable		**965,221**	2,193,372	667,541
Prepaids and other assets		**135,033**	56,215	164,315
		3,402,225	2,840,196	2,533,379
Non-current assets				
Property, plant and equipment, net	**8**	**6,272,283**	6,572,171	5,518,599
Exploration and evaluation assets	**9**	**5,621,965**	4,685,993	1,285,197
Other long term assets		**185,000**	185,000	-
Total non-current assets		**12,079,248**	11,443,164	6,803,796
Total assets		**15,481,473**	14,283,360	9,337,175
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**1,787,034**	2,618,255	1,645,697
Non-current liabilities				
Decommission obligation	**12**	**627,336**	615,471	499,762
Deferred income tax liability		**467,540**	45,007	154,315
Total non-current liabilities		**1,094,876**	660,478	654,077
Total liabilities		**2,881,910**	3,278,733	2,299,774
SHAREHOLDERS' (DEFICIENCY)/EQUITY				
Common shares	**10a**	**17,382,493**	15,349,356	10,195,389
Warrants	**10b**	**766,176**	1,436,229	713,781
Contributed surplus	**10d**	**2,350,431**	1,455,608	1,251,621
Accumulated deficit		**(7,899,537)**	(7,236,566)	(5,123,390)
Total shareholders' equity		**12,599,563**	11,004,627	7,037,401
Total shareholders' equity and liabilities		**15,481,473**	14,283,360	9,337,175
Commitments	**13**			
Subsequent event	**16**			

The accompanying notes are an integral part of these Consolidated Financial Statements.

FORENT ENERGY LTD.
Consolidated Statements of Earnings and Comprehensive Income (Loss)
For the three and six months ended June 30, 2011 and 2010
(Canadian dollars)(unaudited)

	Note	**Three months ended June 30, 2011 *($)***	Three months ended June 30, 2010 *($)* (Note 15)	**Six months ended June 30, 2011 *($)***	Six months ended June 30, 2010 *($)* (Note 15)
Sales and other operating revenues, net of royalties	**6**	**1,297,141**	435,054	**2,218,165**	777,145
Exploration and evaluation expense	**9**	**-**	147,065	**6,454**	229,477
Production and operating expenses		**591,071**	273,223	**1,238,844**	513,760
Depletion and depreciation	**8**	**395,291**	437,165	**882,031**	739,439
General and administrative expenses		**401,128**	275,376	**685,322**	535,006
Share based compensation	**10c**	**44,915**	84,040	**163,037**	110,088
Operating loss		**(135,264)**	(781,815)	**(757,523)**	(1,350,625)
Finance					
Financing income		**-**	16,772	**477**	18,058
Finance costs	**7**	**(6,317)**	(6,199)	**(13,150)**	(14,199)
Net finance expenses		**(6,317)**	10,573	**(12,673)**	3,859
Loss before income tax		**(141,581)**	(771,242)	**(770,196)**	(1,346,766)
Income tax expense (reduction)		**(59,825)**	(478,258)	**(107,225)**	(156,532)
Net loss and comprehensive income for the period		**(81,756)**	(292,984)	**(662,971)**	(1,190,234)
Basic and diluted loss per share	**11**	-	-	($0.01)	($0.02)

The accompanying notes are an integral part of these Consolidated Financial Statements.

FORENT ENERGY LTD.
Consolidated Statements of Changes in Equity
As at June 30, 2011 and December 31, 2010 and January 1, 2010
(Canadian dollars)(unaudited)

	Note	Common Shares ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Deficit ($)	**Total Shareholders' equity ($)**
Balance at January 1, 2010		10,195,389	713,781	1,251,621	(5,123,390)	**7,037,401**
Asset acquisition for shares	**10a**	81,969	-	-	-	**81,969**
Issue of common shares	**10a**	3,445,734	-	-	-	**3,445,734**
Share issue costs, net of tax	**10a**	(24,644)	-	-	-	**(24,644)**
Issue of warrants	**10b**	-	722,448	-	-	**722,448**
Share based payments	**10c**	-	-	110,088	-	**110,088**
Loss for the period		-	-	-	(1,190,234)	**(1,190,234)**
Balance at June 30, 2010		13,698,448	1,436,229	1,361,709	(6,313,624)	**10,182,762**
(note 15)						
Balance at January 1, 2011		15,349,356	1,436,229	1,455,608	(7,236,566)	**11,004,627**
Issue of common shares	**10a**	1,829,349	-	-	-	**1,829,349**
Share issue costs, net of tax	**10a**	(165,962)	-	-	-	**(165,962)**
Exercise of warrants for common shares	**10a**	369,750	(306,737)	306,737	-	**369,750**
Issue of warrants	**10b**	-	23,034	-	-	**23,034**
Expiry of warrants	**10b**	-	(386,350)	386,350	-	**-**
Share based payments	**10c**	-	-	201,736	-	**201,736**
Loss for the year		-	-	-	(662,971)	**(662,971)**
Balance at June 30, 2011		**17,382,493**	**766,176**	**2,350,431**	**(7,899,537)**	**12,599,563**

The accompanying notes are an integral part of these Consolidated Financial Statements.

FORENT ENERGY LTD.
Consolidated Statements of Cash Flows
For the three and six months ended June 30, 2011 and 2010
(Canadian dollars)(unaudited)

	Three months ended June 30, 2011 (*$*)	Three months ended June 30, 2010 (*$*) (note 15)	**Six months ended June 30, 2011 (*$*)**	Six months ended June 30, 2010 (*$*) (note 15)
Operating activities				
loss for the year	**(81,756)**	(292,984)	**(662,971)**	(1,190,234)
Adjustments for:				
Depletion and depreciation	**395,291**	437,165	**882,031**	739,439
Exploration and evaluation expense	**-**	147,065	**6,454**	229,477
Accretion of decommissioning liabilities	**64**	5,129	**6,317**	10,207
Stock based compensation	**44,915**	84,040	**163,037**	110,088
Deferred income taxes	**(59,825)**	(478,258)	**(107,225)**	(156,532)
	298,689	(97,843)	**287,643**	(257,555)
Decommissioning costs incurred				
Change in non-cash working capital	**434,076**	515,657	**318,112**	(275,029)
	732,765	417,814	**605,755**	(532,584)
Financing activities				
Proceeds from issue of share capital	**2,620,750**	3,445,734	**2,761,850**	3,527,703
Proceeds from issue of warrants	**-**	722,448	**-**	722,448
Share issuance costs	**(142,929)**	(32,324)	**(142,929)**	(34,484)
Flow-through share premium, non-cash	**(622,649)**	106,515	**(37,497)**	205,108
	1,855,172	4,242,373	**2,581,424**	4,420,775
Investing activities				
Development and production additions	**(172,897)**	(791,837)	**(582,848)**	(1,045,958)
Exploration and evaluation additions	**(606,079)**	(1,366,369)	**(892,969)**	(1,567,031)
	(778,976)	(2,158,206)	**(1,475,817)**	(2,612,989)
Change in cash and cash equivalents	**1,808,961**	2,501,981	**1,711,362**	1,275,202
Cash and cash equivalents beginning of period	**493,010**	474,744	**590,609**	1,701,523
Cash and equivalents end of period	**2,301,971**	2,976,725	**2,301,971**	2,976,725

The accompanying notes are an integral part of these Consolidated Financial Statements.

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, in Canada. The Company is engaged in the exploration, development and production of petroleum and natural gas reserves in Nova Scotia and western Canada and conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities. The Company's principal place of business is suite 200, 340 – 12th Avenue SW, Calgary, Alberta, T2R 1L5.

2. Basis of preparation

(a) Statement of compliance

The Company's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 – "Interim Financial Reporting" and IFRS 1 – "First Time Adoption of IFRS". Subject to certain transition elections disclosed in note 15, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout all periods presented thereafter, as if these policies had always been in effect. Note 15 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies form those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 25, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that may effect the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized in transitioning to IFRS.

Previously, the Company prepared its Annual and Interim Financial Statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010.

(b) Basis of measurement

The Company's consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised.

Accounts receivable

Accounts receivable are recorded at the estimated recoverable amount that includes an estimate of uncollectible amounts.

2. Basis of preparation (continued)

Property, plant and equipment

The Company's oil and natural gas reserves are determined using estimates of oil and natural gas in place, recovery factors and future prices by an independent reserve engineering firm. A significant number of estimates and assumptions are made in determining the reserves in place and the valuation of those reserves, requiring many judgements based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on net earnings as further information becomes available and as the economic environment changes. The reserves estimate is a key driver in determining the Company's depletion rate and used in impairment testing.

Oil and natural gas assets are grouped into cash generating units ("CGUs") that have been identified as being the smallest identifiable group of assets that generate cash flows that are independent of cash flows of other assets or groups of assets. The determination of these CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Decommissioning liabilities

The calculation of decommissioning liabilities includes estimates of the ultimate settlement amounts, inflation factors, risk free rates, and timing of settlement. The actual decommissioning costs are uncertain and the estimates can vary in response to changes in regulatory requirements and new restoration techniques. The impact of future revisions to these assumptions on the consolidated interim financial statements of future periods could be significant.

Share based compensation

The fair value of employee stock options is measured using a Black Scholes option pricing model. The option pricing model requires management to estimate expected volatility, weighted average expected life, expected forfeiture rate, expected dividends, and the risk-free interest rate (based on government bonds). The expected volatility, life of the options and forfeiture rates are based upon historical experience. Dividends are assumed to be nil, as management does not anticipate any dividends to be paid in the future. The risk-free rate is based upon government bond rates at the time of issuance of the options.

Deferred taxes

Tax interpretations, regulations and legislation in which the Corporation and its subsidiaries operate are subject to change. As such, income taxes are subject to measurement uncertainty. Management assumes that the Company will use its tax pools to the full extent in future periods and has determined its deferred tax balance on that basis.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by the Company and its subsidiaries.

Certain comparative amounts have been reclassified to conform with the current year's presentation as noted below.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits

3. Significant accounting policies (continued)

from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the

consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred and any non-controlling interest over the net of the assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in the income statement.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions with differences recorded in income.

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in comprehensive income.

(c) Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivables, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and term deposits held with banks with original maturities of three months or less.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value.

3. Significant accounting policies (continued)

Other

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) *Derivative financial instruments*

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the balance sheet at fair value. Transaction costs are recognized in profit or loss when incurred.

(iii) *Share capital*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment and intangible exploration assets

(i) *Pre-exploration costs*

Pre-exploration costs are costs incurred prior to the Company having the legal right to the minerals that are being explored for, such as conducting a seismic survey prior to purchasing the freehold mineral right. Pre-exploration costs are recognized in the statement of earnings as incurred.

(ii) *Exploration and evaluation expenditures*

Exploration and evaluation costs include the costs of acquiring licences, leasehold acquisition costs, evaluation costs including drilling and completions and directly attributable general and administrative costs. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment if, the right to explore in the area has expired or will expire in the near future, further exploration for and evaluation of petroleum resources are not budgeted or planned and sufficient data suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs not larger than an operating segment.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment referred to as oil and natural gas interests.

(iii) *Oil and natural gas interests*

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into

3. Significant accounting policies (continued)

CGU's for impairment testing. The cost of property, plant and equipment at January 1, 2010, the date of transition to IFRS, was determined by the use of IFRS 1 exemption for the deemed cost of oil and natural gas interests reflective of the net book value of the Company's previous GAAP oil and natural gas assets, adjusted for asset impairments of those assets at the CGU level. The deemed cost of oil and gas interests were allocated based upon the proved plus probable reserve value of the respective CGUs. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Additional expenditures in oil and natural gas interests generally represent costs incurred in developing reserves or enhancing production from reserves and are accumulated on a CGU basis. The carrying amount of any replaced or sold component is derecognized. The costs of day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in profit or loss.

(iv) *Depletion and depreciation*

The net carrying value of oil and gas interests is depleted at the CGU level using the unit of production method based upon proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Administrative assets are depreciated on a declining balance basis over their estimated useful life at rates varying from 20% to 50%.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Impairments

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

3. Significant accounting policies (continued)

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(f) Share based payments

The Company accounts for its stock options using the fair value method. The options have an exercise price equal to or above the fair value of the security at the date of grant. The fair value of each option is estimated on the date of grant using a modified Black-Scholes option-pricing model. The Black Scholes option pricing model requires management to estimate expected volatility, weighted average expected life, expected forfeiture rate, expected dividends, and the risk-free interest rate (based on government bonds). The fair value is charged to earnings over the vesting period with a corresponding increase to contributed surplus.

(g) Flow-through shares

Flow-through shares enable an investor to claim a deduction for tax purposes related to eligible capital expenditures incurred by the issuer. The issuer renounces the right to claim these deductions and effectively flows the deductions directly to the investor.

The issuance of flow-through shares is in substance an issue of ordinary shares and the sale of tax deductions. The Company uses the residual method in valuing the sale of the tax deduction, being the difference between the proceeds received from the issuance of the flow-through shares and the fair value of the ordinary shares. At the time the flow-through shares are issued, the sale of the tax deductions are deferred and presented as a current liability in the statement of financial position.

3. Significant accounting policies (continued)

When the entity fulfills its obligation by both incurring the eligible expenditures and renouncing those expenditures to investors, the current liability is reversed and a deferred tax recovery is recorded. At that time an offsetting deferred tax expense is recorded to reflect the tax benefit flowed through to the investor and a deferred tax liability is recognized, in accordance with IAS 12, *Income Taxes*, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

(h) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) *Decommissioning obligations*

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(i) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline or delivered to a third-party processing facility in regards to trucked crude oil. Revenue is measured net of discounts and royalties.

Processing and gas gathering fees charged to other entities for use of facilities and pipelines owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or processing and gas gathering agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(j) Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on the provision for decommissioning liabilities.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

3. Significant accounting policies (continued)

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are reported on a net basis.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using enacted or substantively enacted tax rates at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

(l) Earnings per share:

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, including warrants and options granted to employees, directors and consultants.

(m) Recent accounting pronouncements:

The accounting standards effective for periods on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following new IFRS pronouncements have been issued but are not yet effective and may have an impact on the Corporation in the future.

IFRS 9 – Financial Instruments

IFRS 9, as issued reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the financial statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation-Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The adoption of this standard is not expected to have a significant impact on the financial statements.

3. Significant accounting policies (continued)

IFRS 11 – Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities, Non-Monetary Contributions by Venturers. The adoption of this standard is not expected to have a significant impact on the financial statements.

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. The adoption of this standard is not expected to have a significant impact on the financial statements.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell and asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures. The adoption of this standard is not expected to have a significant impact on the financial statements.

IAS 27 – Separate Financial Statements

IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. This standard is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the financial statements.

IAS 28 – Investment in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Effective for annual periods beginning on or after January 1, 2013, the standard has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. The adoption of this standard is not expected to have a significant impact on the financial statements.

4. Financial risk management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees managements' establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at June 30, 2011 is as follows:

	June 30, 2011	December 31, 2010
	($)	*($)*
Cash and cash equivalents	**2,301,971**	590,609
Accounts receivable	**965,221**	2,193,372
	3,267,192	2,783,931

Cash and cash equivalents

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a credit rating of an investment grade. Given this credit rating, management does not expect any counterparty to fail to meet its obligations.

Accounts receivables

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

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, natural gas liquids and crude oil production is marketed through two major oil and gas companies, both of which have investment grade creditworthiness. The Company historically has not experienced any collection issues with its oil and natural gas marketers. The Company does not anticipate any default as it transacts with only

4. Financial risk management (continued)

creditworthy customers and management does not expect any losses from non-performance by these customers.

Under IFRS the Company is required to provide fair value measurement information as indicated below for financial assets and liabilities as of June 30, 2011 and December 31, 2010 and January 1, 2010, in addition to cash and cash equivalents, trade and other receivables, bank overdraft and trade and other payables included in the consolidated balance sheet at carrying value which approximates fair value due to the short term nature of those instruments.

The Company's most significant customer, a Canadian oil and natural gas marketer, accounts for $403,332 of the trade receivables at June 30, 2011 (2010 - $70,524).

As at June 30, 2011, the Company's accounts receivables are aged as follows:

Aging of receivables	**0 to 30 days**	**31 to 90 days**	**91 + days**	**Total**
Sales and accrued revenues	**479,351**	**-**	**-**	**479,351**
Joint interest billings with partners	**156,174**	**76,935**	**126,805**	**359,914**
Goods and service tax credit	**92,995**	**-**	**29,275**	**122,270**
Other receivables	**-**	**3,686**	**-**	**3,686**
Accounts receivable	**728,520**	**80,621**	**156,080**	**965,221**

As at December 31, 2010, the Company's accounts receivables is aged as follows:

Aging of receivables	0 to 30 days	31 to 90 days	91 + days	Total
	($)	*($)*	*($)*	*($)*
Sales and accrued revenues	**573,662**	**-**	**-**	**573,662**
Joint interest billings with partners	**142,672**	**151,149**	**35,340**	**329,161**
Goods and service tax credit	**183,024**	**-**	**212,947**	**395,971**
Other receivables	**(1)894,578**	**-**	**-**	**894,578**
Accounts receivable	**1,793,936**	**151,149**	**248,287**	**2,193,372**

(1) Funds held in escrow by legal counsel related to December 21, 2010 financing.

4. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company's main source of liquidity to fund operations is from the issuance of capital and funds from operations. The Company defines funds from operations, a non-GAAP measurement, as cash provided by operations before changes in non-cash operating working capital.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditure. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

The Company had no derivative contracts in place as at the period ended June 30, 2011 and year ended December 31, 2010.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements at June 30, 2011.

	Less than 1 Year	1 to 3 Years	4 to 5 Years	There-after	Total
	($)	*($)*	*($)*	*($)*	*($)*
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	**1,787,034**	**-**	**-**	**-**	**1,787,034**

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements at December 31, 2010.

	Less than 1 Year	1 to 3 Years	4 to 5 Years	There-after	Total
	($)	*($)*	*($)*	*($)*	*($)*
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	2,618,255	-	-	-	2,618,255

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4. Financial risk management (continued)

The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world and domestic economic events that dictate the levels of supply and demand.

As at June 30, 2011 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.

Currency risk

Prices for crude oil are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company are influenced by both US and Canadian demand and the corresponding North American supply and recently, by imports of liquefied natural gas.

The following financial instruments were denominated in U.S. dollars:

	June 30, 2011		December 31, 2010	
	USD	**CAD**	USD	CAD
	($)	***($)***	*($)*	*($)*
Cash and cash equivalents	**31,297**	**32,455**	9,817	9,601
Trade and other payables	**-**	**-**	-	-
Net balance sheet equivalents	**31,297**	**32,455**	9,817	9,601

Interest rate risk

The Company had no interest bearing financial assets or liabilities as at June 30, 2011 or December 31, 2010. There were no interest rate risk management contracts outstanding at June 30, 2011 or December 31, 2010.

(e) 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 exploration 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

4. Financial risk management (continued)

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, 2011, 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 June 30, 2011 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.

There were no changes in the Company's approach to capital management during the period of June 30, 2011 as compared to the year ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

5. Deferred taxes

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.

	June 30, 2011	June 30, 2010
	($)	*($)*
Statutory tax rate	**28.69%**	28.46%
Expected income tax reduction	**(220,964)**	(383,357)
Non-deductible stock-based compensation	**46,774**	31,337
Non-deductible expenses	**2,639**	3,714
Effect of tax rate changes and temporary differences recorded at future rates	**20,564**	(33,501)
Flow-through share premium	**10,805**	212,957
Other	**32,957**	12,318
Future income tax recovery	**(107,225)**	(156,532)

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

	June 30, 2011	June 30, 2010
	($)	*($)*
Property, plant and equipment	**(1,971,970)**	(1,880,023)
Asset retirement obligations	**174,399**	209,395
Share issue costs	**191,808**	211,507
Non-capital losses	**1,138,222**	1,175,944
Future income tax liability	**(467,540)**	(283,178)

6. Oil and natural gas revenue

	June 30, 2011	June 30, 2010
	($)	*($)*
Oil and natural gas sales	**2,520,661**	850,927
Less: royalties	**(388,418)**	(119,611)
Other oil and natural gas operating revenues	**85,922**	45,829
Total oil and natural gas revenue	**2,218,165**	777,145

7. Finance expense

	June 30, 2011	June 30, 2010
	($)	*($)*
Interest and bank charges	**580**	(1,086)
Accretion on decommissioning liabilities	**12,570**	15,285
Total finance expense	**13,150**	14,199

8. Property, plant and equipment

	Oil and natural gas interests	Administrative	Total
	$	$	$
Cost or deemed cost			
Balance at January 1, 2010	5,487,057	82,988	5,570,045
Additions	2,528,489	2,333	2,530,822
Transfer from intangible exploration assets	557,000	-	557,000
Disposals	(35,000)	-	(35,000)
Balance at December 31, 2010	8,537,546	85,321	8,622,867
Additions	578,144	3,999	582,143
Balance at June 30, 2011	**9,115,690**	**89,320**	**9,205,010**

	Oil and natural gas interests	Administrative	Total
Depletion, depreciation and impairment losses			
Balance at January 1, 2010	-	51,446	51,446
Depletion and depreciation for the year	1,383,962	10,792	1,394,754
Impairment loss	604,496	-	604,496
Disposals	-	-	-
Balance at December 31, 2010	1,988,458	62,238	2,050,696
Depletion and depreciation for the period	877,570	4,461	882,031
Balance at June 30, 2011	**2,866,028**	**66,699**	**2,932,727**

	Oil and natural gas interests	Administrative	Total
Carrying amounts			
At January 1, 2010	5,487,057	31,542	5,518,599
At December 31, 2010	6,549,088	23,083	6,572,171
At June 30, 2011	**6,249,662**	**22,621**	**6,272,283**

8. Property, plant and equipment (continued)

(a) Depletion, depreciation and impairment charge

The depletion, depreciation and impairment of property, plant and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the income statement.

During the period ended June 30, 2011 the Company recorded an impairment of $98,958 to oil and gas assets (June 30, 2010 impairment - $232,673). During the year ended December 31, 2010, the Company recognized an impairment of $604,496 on various natural gas wells in its non-core areas, as a result of a reduction of forecasted natural gas prices leading to reserve volumes being revised down.

(b) Contingencies

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

9. Exploration and evaluation assets

	($)
Deemed cost (Note 15)	
Balance, January 1, 2010	1,285,197
Additions	4,277,108
Transfer to oil and natural gas properties	(557,000)
Exploration and evaluation expense	(319,312)
Balance, December 31, 2010	4,685,993
Additions	942,426
Transfer to oil and natural gas properties	-
Exploration and evaluation expense	(6,454)
Balance, June 30, 2011	**5,621,965**

Exploration and evaluation (E&E) assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period. As at June 30, 2011 an amount of $5,621,965 (2010 - $4,685,993) remains in exploration and evaluation assets in respect of the Alton and Beech Hill exploration projects in Nova Scotia and the exploration project in Montgomery, Alberta. During the period ended June 30, 2011 an expense of $6,454 (June 30, 2010 - $229,477) related to exploration costs not anticipated to be recovered through oil and natural gas reserves was recorded.

During the period ended June 30, 2011, $235,234 (June 30, 2010 - $54,000) was capitalized relating directly to wage compensation and stock based compensation.

10. Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At June 30, 2011, the Company had 103,677,022 common shares outstanding (2010 – 102,847,022) and no preferred shares outstanding (2010 – nil).

(a) Common shares

As at	**June 30, 2011**		December 31, 2010	
	Shares	**Amount**	Shares	Amount
	(#)	***($)***	*(#)*	*($)*
Common shares				
Balance, beginning of period	**102,847,022**	**15,349,356**	69,937,686	10,195,389
Issued pursuant to acquisition of Edelex	**-**	**-**	327,771	81,969
Issued pursuant to private placements	**9,379,167**	**1,688,250**	32,581,565	5,112,401
Share issue costs	**-**	**(165,962)**	-	(40,403)
Issued pursuant to warrants exercised	**3,004,999**	**510,849**	-	-
Balance, end of period	**115,231,188**	**17,382,493**	102,847,022	15,349,356

On June 1, 2011 the Company completed a brokered private placement for gross proceeds of $2,251,000. The private placement consisted of the issuance of 9,379,167 flow-through common shares at a price of $0.24 per share. The flow-through shares were valued at $1,688,250, being the deemed non-flow-through share valuation. A current liability of $562,750 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors was recorded at the time of issue. Cash fees associated with the private placement consisted of $63,336 in regulatory and legal expenses and commissions and brokers fees of $145,744. Broker warrants totalling 488,833 that expire on June 1, 2012 and are exercisable at $0.24 were issued pursuant to the brokered placement. The Company valued the broker warrants using the Black-Scholes method resulting in a fair value of $23,034. In addition a future income tax benefit associated with the share issue costs was $66,152, resulting in net share issuance costs of $165,962.

On December 21, 2010 the Company completed a non-brokered private placement for gross proceeds of $2,000,000. The private placement consisted of the issuance of 11,111,111 flow-through common shares at a price of $0.18 per share. The flow-through shares were valued at $1,666,667, being the deemed non-flow-through share valuation. A current liability of $333,333 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors was recorded at the time of issue. Fees associated with the private placement consisted of $22,047 in regulatory and legal expenses. In addition a future income tax benefit associated with the share issue costs was $6,287, resulting in net share issuance costs of $15,760.

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 6,295,454 flow through common shares at a price of $0.22 per share. The common shares were valued at $2,312,552 and the warrants were valued at $722,448. The flow-through shares were valued at

10. Share capital (continued)

$1,133,182, being the deemed non-flow-through share valuation. A current liability of $251,818 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors was recorded at the time of issue. Fees associated with the private placement consisted of $32,324 in regulatory and legal expenses. 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.

(b) Share Purchase Warrants

			June 30, 2011			December 31, 2010
	Warrants	**Amount**	**Weighted Average Exercise Price**	Warrants	Amount	Weighted Average Exercise Price
	(#)	***($)***	***($)***	*(#)*	*($)*	*($)*
Warrants						
Warrants, beginning of period	**15,505,755**	**1,436,229**	**0.23**	7,918,255	713,781	0.20
Issue of broker warrants	**488,833**	**23,034**	**0.24**	7,587,500	722,448	0.26
Exercise of warrants	**(3,004,999)**	**(306,737)**	**0.17**	-	-	-
Expiry of warrants	**(3,585,926)**	**(386,350)**	**0.22**	-	-	-
Warrants, end of period	**9,403,663**	**766,176**	**0.25**	15,505,755	1,436,229	0.23

Pursuant to the June 1, 2011 brokered private placement the Company issued 488,833 share purchase warrants of the Company exercisable for one common share of the Company at a price of $0.24 per share until June 1, 2012. The 488,833 warrants were fair valued at $23,034.

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 warrants issued on June 1, 2011 and April 15, 2010, using the Black-Scholes option pricing model at the non-brokered private placement closing date. The fair value of the warrants and the assumptions used in the valuation were as follows: dividend rate 0%; expected volatility: 90 - 114%; risk-free interest rate: 1.45% - 1.29%; and expected life: 1.0 - 2.0 years, respectively.

(c) Share based payments

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,

10. Share capital (continued)

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 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.

As at June 30, 2011 and June 30, 2010, the following stock options were outstanding:

	June 30, 2011		June 30, 2010	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Beginning of period	**5,704,490**	**0.43**	4,841,110	0.47
Granted	**2,760,000**	**0.25**	-	-
Cancelled	**(207,454)**	**0.49**	-	-
Granted pursuant to re-pricing	**1,889,355**	**0.25**	-	-
Cancelled pursuant to re-pricing	**(3,778,704)**	**0.49**	-	-
End of period	**6,367,687**	**0.26**	4,841,110	0.47

	June 30, 2011			June 30, 2010		
Option Exercise Price	**Number Outstanding**	**Weighted Average Remaining Life**	**Number of Options Exercisable**	Number Outstanding	Weighted Average Remaining Life	Number of Options Exercisable
	(#)	***(years)***	***(#)***	*(#)*	*(years)*	*(#)*
$0.25	**5,414,355**	**4.35**	**3,319,355**	765,000	4.08	255,000
$0.30	**880,000**	**3.87**	**440,000**	-	-	-
$0.49	**-**	**-**	**-**	4,002,778	3.00	3,381,482
$0.54	**73,332**	**2.09**	**73,332**	73,332	3.34	73,332
	6,367,687	**4.26**	**3,832,687**	4,841,110	3.18	3,709,814

On February 4, 2011, the Company granted stock options to acquire up to an aggregate of 2,760,000 common shares of Forent to certain directors, officers, employees and consultants of the Company. Each of the options is exercisable for a five year term expiring on February 4, 2016 and exercisable until that time at a price of $0.25 per common share. One-third of the options vested immediately upon 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 that expired on June 5, 2011.

10. Share capital (continued)

The Company determined a fair value of $354,180 for the stock options granted, using the Black-Scholes option pricing model as at the date of grant with a weighted average fair market value of $0.13 per stock option.

In addition, on February 4, 2011, the Company amended 1,914,815 options issued to directors, officers, employees and consultants of the Company that were originally issued on October 17, 2007 and 1,863,889 options that were originally issued on October 7, 2008, all with an exercise price of $0.49 per share, by reducing the number of options issued in each grant by 50%, reducing the exercise price to $0.25 and extending the expiry date to February 4, 2016.

The Company accounts for its stock-based compensation plan using the fair value method with graded vesting that fair values each tranche separately. Under this method, a compensation cost is charged over the vesting period for stock options granted to employees, officers, directors and consultants of the Company over the appropriate vesting period for each tranche. The fair value of each option granted is estimated on the date of grant using a modified Black-Scholes option-pricing model. The following assumptions have been used.

	June 30, 2011
Risk free rate (%)	**2.20**
Expected life (years)	**3.4**
Expected volatility (%)	**90**
Expected dividends	**-**

(d) Contributed Surplus

	June 30, 2011	December 31, 2010
	($)	*($)*
Contributed surplus, beginning of year	**1,455,608**	1,251,621
Stock-based compensation expense	**163,037**	203,987
Stock-based compensation capitalized	**38,699**	-
Exercise of warrants	**306,737**	-
Expiry of warrants	**386,350**	-
Contributed surplus, end of year	**2,350,431**	1,455,608

11. Earnings per share

	Loss for the period	Weighted average number of shares	Per share amount
	($)	*(#)*	*($)*
Period ended June 30, 2011			
Loss attributed to shareholders- Basic and diluted	**(662,971)**	**105,904,706**	**(0.01)**
Period ended June 30, 2010			
Loss attributed to shareholders- Basic and diluted	**(1,190,234)**	**79,280,676**	**(0.02)**

Basic loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of common shares in issue during the period. Diluted per share information is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

As at June 30, 2011, 15,771,350 (June 30, 2010 – 21,291,865) share options and warrants that are considered to be anti-dilutive have been excluded from the diluted per share calculation.

12. Decommissioning liabilities

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the total undiscounted amount of the decommissioning obligations to be $935,010 as at June 30, 2011 (June 30, 2010 - $958,496). These payments are expected to be made over the next 25 years with the majority of costs to be incurred between 2020 and 2025. The present value of the decommissioning liabilities was calculated using a risk free rate of 4.0% (2010 - 4.0%) and an inflation rate of 2.4% (June 30, 2010 – 2.4%). Changes to decommissioning liabilities during the periods were as follows:

	June 30, 2011	December 31, 2010
	($)	*($)*
Balance, at beginning of period	**615,471**	499,762
Liabilities incurred on development	**-**	268,692
Liabilities settled and disposed	**-**	(158,966)
Revisions	**(705)**	(17,199)
Financing expense	**12,570**	23,180
Decommission liabilities	**627,336**	615,471

13. Commitments

(a) Flow-through share obligations

On June 1, 2011, the Company issued flow-through shares requiring that $2,251,000 in qualifying exploration expenditures be expended by December 31, 2012. As at June 30, 2011 the Company has incurred approximately $250,000 of qualifying expenditures.

(b) Alton Block commitment

On April 8, 2011 Forent received approval from the province of Nova Scotia, for a new, revised exploration agreement for the Alton Block, to April 8, 2014. As part of this three year renewal the Company made the following spending commitments.

	($)
2012	1,350,000
2013	1,800,000
2014	3,150,000
	6,300,000

(c) Beech Hill Block commitment

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

As at June 30, 2011 the Company has expended approximately $0.6 million of the total commitment at Beech Hill. The Company is currently reviewing its exploration program and future capital expenditures at Beech Hill.

(d) Office lease

The Company entered into an office lease that commences September 1, 2011. The lease is for a three year term ending August 1, 2014 and requires the following annual payments made on a monthly basis.

	($)
2011	42,656
2012	129,578
2013	134,407
2014	91,751
	398,393

14. 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, non-secured and are to be settled in cash. No provisions for doubtful accounts have been made during the period ended June 30, 2011 and 2010 in regards to related parties.

During the three and six months ended June 30, 2011 and 2010, the Company had the following related party transactions:

In January 2011 the Company incurred $36,000 to acquire oil and gas equipment from a company controlled by a significant shareholder. Pursuant to the purchase of the equipment the Company ended its rental relationship with the significant shareholder's company and renegotiated a lower cost buyout of the pipeline facilities that will be completed on December 31, 2011. As a result of the purchase there were no operating costs relating to pipeline and facility rental fees in 2011 (2010 - $26,747 and $53,495). At June 30, 2011, there was an outstanding balance of $18,900 (June 30, 2010 - $9,362).

During the three and six months ended June 30, 2011, the Company incurred $17,712 and $33,683 of operating costs relating to pipeline compressor rental fees, respectively, from a company controlled by a board member. The board member became a related party upon acceptance of a board position effective September 1, 2010. As at June 30, 2011, there was an outstanding balance of $32,756 owed to the related company. The pipeline and facility rental fees and outstanding balance were 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 partner, being a large and well funded petroleum producer.

During the three and six months ended June 30, 2011 the Company incurred $8,214 and $25,968 (2010 - $nil and 6,227) for legal services, respectively, with a law firm of which a board member is a partner. As at June 30, 2011, there was an outstanding balance of $3,638 (June 30, 2010 – $nil) owed for legal services.

Compensation for key management

Key management includes the company's directors and executives. Compensation awarded to key management included the following:

For the period ended,	**June 30, 2011**	June 30, 2010
	($)	*($)*
Salaries and employee benefits	**227,488**	186,730
Share based payments	**48,475**	38,242
	275,963	224,972

15. Transition to International Financial Reporting Standards

The interim financial statements for the quarter ended June 30, 2011 have been prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under generally accepted accounting principles in Canada ("Canadian GAAP"). The Company has prepared reconciliations of equity as at January 1, 2010, June 30, 2010 and December 31, 2010 and reconciliations of comprehensive income for the six months ended June 30, 2010 and the year ended December 31, 2010, using the accounting policies in note 3 and the following IFRS 1 – "First-time Adoption of International Financial reporting Standards" ("IFRS 1") exemptions:

IFRS 1 is the standard that governs mandatory exceptions and optional exemptions that an entity may elect for its transition to IFRS in order to assist the entity with the transition process. This standard is only applicable to the opening balance sheet of the entity on the transition date of January 1, 2010. All adjustments made as a result of adoption of IFRS are offset against the Company's January 1, 2010 retained earnings.

The Company has taken the following exemptions:

Deemed cost election for petroleum and natural gas assets

The Company has development and production assets recognized in the opening IFRS balance sheet. Under IFRS 1, the Company was allowed and elected to deem the value of its petroleum and natural gas assets, at the date of transition, based on the historical cost under GAAP. Assets subject to the allocation include exploration and development costs and production equipment and processing facilities, excluding undeveloped properties and land.

As a result of electing this optional exemption, petroleum and natural gas assets were allocated to appropriate components within each cash generating unit ("CGU") based on a proration factor using discounted cash flows from total proved plus probable reserves at January 1, 2010. Additionally, assets were tested for impairment on January 1, 2010, in accordance with IAS 36

"Impairment of Assets". The result of the impairment test was a write-down of the Company's petroleum and natural gas assets of $2,175,952.

Exploration and evaluation costs, representing undeveloped land and exploratory well costs were recognized on transition at January 1, 2010, based on previously recognized costs, subject to an impairment test.

Decommissioning liabilities included in the cost of development and production

Under GAAP, decommissioning liabilities were discounted at a credit adjusted risk free rate. Under IFRS the estimated cash flow to abandon and remediate the wells and fields has been risk adjusted; therefore the provision is discounted at a risk free rate, which resulted in a $91,059 increase to the discounted obligation recognized on the balance sheet. By using the deemed cost election discussed above, the Company was able to measure its decommissioning liability as at the date of transition in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and recognize in retained earnings the difference between the re-measured amount and the carrying amount of the liability at the date of transition to IFRS determined under GAAP.

15. Transition to International Financial Reporting Standards (continued)

Business combinations

Under IFRS 3 – "Business Combinations", the determination of the fair value of share consideration differs from the determination under GAAP. Any difference in the fair value calculation would have a resulting impact on the carrying amount of net assets acquired, non-controlling interest and any goodwill. The Company has taken advantage of this election, thereby allowing Forent to be exempt from restating business combinations prior to January 1, 2010, the transition date to IFRS.

Share based payment transactions

IFRS 2 "Share-based Payments" encourages application of IFRS 2 provisions to equity instruments granted on or before November 7, 2002, but permits, by exemption under IFRS 1, the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. For equity settled instruments that were granted and fully vested by January 1, 2010, IFRS 2 does not need to be applied retrospectively or for cash settled transactions that were settled before January 1, 2010. The Company has elected to take this exemption.

Determining whether an arrangement contains a lease

This exemption permits the Company to avoid retrospective application of IFRIC 4 "Determining whether an arrangement contains a lease". This exemption allows a first-time adopter to determine whether an arrangement existing at the date of transition to IFRSs contains a lease on the basis of facts and circumstances existing at that date, rather than at the inception of the arrangement. Therefore any change in the determination of whether an arrangement contains a lease can be applied prospectively.

As a result of adoption of IFRS there have been no material changes to the statement of cash flows.

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated statement of financial position as at January 1, 2010

	Notes	December 31, 2009 CDN GAAP *($)*	Effect of transition to IFRS *($)*	**January 1, 2010 IFRS *($)***
ASSETS				
Current assets				
Cash and cash equivalents		1,701,523		**1,701,523**
Accounts receivable		667,541		**667,541**
Prepaids and other assets		164,315		**164,315**
Total current assets		2,533,379		**2,533,379**
Non-current assets				
Development and production assets	**(a), (b)**	8,623,201	(3,104,602)	**5,518,599**
Exploration and evaluation assets	**(b)**	-	1,285,197	**1,285,197**
Other long term assets	**(f)**	31,542	(31,542)	**-**
Total non-current assets		8,654,743	(1,850,947)	**6,803,796**
Total assets		11,188,122	(1,850,947)	**9,337,175**
EQUITY AND LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**(e)**	1,350,454	295,243	**1,645,697**
Non-current liabilities				
Decommission obligation	**(c)**	408,703	91,059	**499,762**
Deferred income tax liability	**(d)**	738,841	(584,526)	**154,315**
Total non-current liabilities		1,147,544	(493,467)	**654,077**
Total liabilities		2,497,998	(198,224)	**2,299,774**
SHAREHOLDERS' (DEFICIENY)/EQUITY				
Common shares	**(e)**	10,094,720	100,669	**10,195,389**
Warrants		713,781		**713,781**
Contributed surplus	**(h)**	1,166,576	85,045	**1,251,621**
Accumulated deficit	**(a), (c), (e), (h)**	(3,284,953)	(1,838,437)	**(5,123,390)**
Total shareholders' (deficiency)/equity		8,690,124	(1,652,723)	**7,037,401**
Total shareholders' equity and liabilities		11,188,122	(1,850,947)	**9,337,175**

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated statement of financial position as at June 30, 2010

	Notes	June 30, 2010 CDN GAAP *($)*	Effect of transition to IFRS *($)*	**June 30, 2010 IFRS *($)***
ASSETS				
Current assets				
Cash and cash equivalents		2,976,726	(1)	**2,976,725**
Accounts receivable		700,788		**700,788**
Prepaids and other assets		225,983		**225,983**
Total current assets		3,903,497	(1)	**3,903,496**
Non-current assets				
Development and production assets	**(a), (b), (g)**	10,803,063	(4,799,955)	**6,003,108**
Exploration and evaluation assets	**(b)**		2,705,163	**2,705,163**
Other long term assets	**(f)**			
Total non-current assets		10,803,063	(2,094,792)	**8,708,271**
Total assets		14,706,560	(2,094,793)	**12,611,767**
EQUITY AND LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**(e)**	1,213,765	251,818	**1,465,583**
Non-current liabilities				
Decommission obligation	**(c)**	577,805	102,439	**680,244**
Deferred income tax liability	**(d)**	883,638	(600,460)	**283,178**
Total non-current liabilities		1,461,443	(498,021)	**963,422**
Total liabilities		2,675,208	(246,203)	**2,429,005**
SHAREHOLDERS' (DEFICIENY)/EQUITY				
Common shares	**(e)**	13,428,834	269,614	**13,698,448**
Warrants		1,436,229		**1,436,229**
Contributed surplus	**(h)**	1,327,658	34,051	**1,361,709**
Accumulated deficit	**(a), (c), (e), (g), (h)**	(4,161,369)	(2,152,255)	**(6,313,624)**
Total shareholders' (deficiency)/equity		12,031,352	(1,848,590)	**10,182,762**
Total shareholders' equity and liabilities		14,706,560	(2,094,793)	**12,611,767**

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated statement of financial position as at December 31, 2010

	Notes	December 31, 2010 CDN GAAP ($)	Effect of transition to IFRS ($)	**December 31, 2010 IFRS ($)**
ASSETS				
Current assets				
Cash and cash equivalents		590,609		**590,609**
Accounts receivable		2,193,372		**2,193,372**
Prepaids and other assets		56,215		**56,215**
Total current assets		2,840,196		**2,840,196**
Non-current assets				
Development and production assets	**(a), (b), (g)**	13,176,949	(6,604,778)	**6,572,171**
Exploration and evaluation assets	**(b)**	-	4,685,993	**4,685,993**
Other long term assets	**(f)**	208,083	(23,083)	**185,000**
Total non-current assets		13,385,032	(1,941,868)	**11,443,164**
Total assets		16,225,228	(1,941,868)	**14,283,360**
EQUITY AND LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		2,033,103	585,152	**2,618,255**
Non-current liabilities				
Decommission obligation	**(c)**	477,467	138,004	**615,471**
Deferred income tax liability	**(d)**	593,727	(548,720)	**45,007**
Total non-current liabilities		1,071,194	(410,716)	**660,478**
Total liabilities		3,104,297	174,436	**3,278,733**
SHAREHOLDERS' (DEFICIENY)/EQUITY				
Common shares	**(e)**	15,356,842	(7,486)	**15,349,356**
Warrants		1,436,229		**1,436,229**
Contributed surplus	**(h)**	1,446,384	9,224	**1,455,608**
Accumulated deficit	**(a), (c), (e), (g), (h)**	(5,118,524)	(2,118,042)	**(7,236,566)**
Total shareholders' (deficiency)/equity		13,120,931	(2,116,304)	**11,004,627**
Total shareholders' equity and liabilities		16,225,228	(1,941,868)	**14,283,360**

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated earnings and comprehensive income (loss) for the six months ended June 30, 2010

	Notes	Six months ended June 30, 2010 CDN GAAP ($)	Effect of transition to IFRS ($)	**Six months ended June 30, 2010 IFRS ($)**
Sales and other operating revenues	**(f)**	850,927	(73,782)	**777,145**
Royalties	**(f)**	(119,611)	80,556	
Total net revenue		731,316	6,774	**777,145**
Exploration and evaluation expense	**(b)**		229,477	**229,477**
Production and operating expenses	**(f)**	467,933	45,827	**513,760**
Depletion, depreciation and amortization	**(a), (g)**	723,903	15,536	**739,439**
General and administrative expenses		517,724	17,282	**535,006**
Share based compensation	**(h)**	161,082	(50,994)	**110,088**
Operating profit		(1,139,326)	(250,354)	**(1,350,625)**
Finance				
Financing income		-	18,058	**18,058**
Finance costs	**(c)**	(3,216)	(10,983)	**(14,199)**
Net finance expenses		(3,216)	7,075	**3,859**
Loss before income tax		(1,142,542)	(243,279)	**(1,346,766)**
Income tax reduction	**(d)**	266,126	(109,594)	**156,532**
Profit and comprehensive income for the period		(876,416)	(352,873)	**(1,190,234)**

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of consolidated earnings and comprehensive income (loss) for the three months ended June 30, 2010

	Notes	Three months ended June 30, 2010 CDN GAAP *($)*	Effect of transition to IFRS *($)*	**Three months ended June 30, 2010 IFRS *($)***
Sales and other operating revenues	**(f)**	451,222	(16,168)	**435,054**
Royalties	**(f)**	(39,055)	39,055	**-**
Total net revenue		412,167	(22,887)	**435,054**
Exploration and evaluation expense	**(b)**		147,065	**147,065**
Production and operating expenses	**(f)**	250,336	22,887	**273,223**
Depletion, depreciation and amortization	**(a), (g)**	401,407	35,758	**437,165**
General and administrative expenses		257,748	17,628	**275,376**
Share based compensation	**(h)**	124,775	(40,735)	**84,040**
Operating profit		(622,099)	(159,716)	**(781,815)**
Finance				
Financing income		(1,286)	18,058	**16,772**
Finance costs	**(c)**	(640)	(5,559)	**(6,199)**
Net finance expenses		(1,926)	12,499	**10,573**
Loss before income tax		(624,025)	(147,217)	**(771,242)**
Income tax reduction	**(d)**	102,224	376,034	**478,258**
Profit and comprehensive income for the period		(521,801)	228,817	**(292,984)**

15. Transition to International Financial Reporting Standards (continued)

Reconciliation of the consolidated statement of changes in equity

	Notes	As at January 1, 2010 *($)*	**Three months ended June 30, 2010 *($)***	**Six months ended June 30, 2010 *($)***
Total equity under previous GAAP		8,690,124	**12,031,352**	**12,031,352**
Recognition of impairment write-downs and revaluation of depletion adjustments	**(a), (g)**	(1,850,945)	**(1,892,523)**	**(1,879,965)**
Exploration and evaluation expense	**(b)**	-	**(147,065)**	**(229,477)**
Revaluation of decommissioning liabilities	**(c)**	(91,061)	**(106,229)**	**(101,055)**
Change in financing expense	**(c)**	-	**1,202**	**(1,384)**
Revaluation of flow-through shares	**(e)**	(295,242)	**(176,474)**	**(237,169)**
		(2,237,248)	**(2,321,089)**	**(2,449,050)**
Tax effect of the above	**(d)**	584,525	**472,499**	**600,460**
Total adjustment to equity		(1,652,723)	**(1,848,590)**	**(1,848,590)**
Total equity under IFRS		7,037,401	**10,182,762**	**10,182,762**

15. Transition to International Financial Reporting Standards (continued):

Explanations of the effect of the transition to IFRS as at January 1, 2010

The following explains the material adjustments to the statement of financial position as at January 1, 2010:

(a) Development and production

Under GAAP, the Company followed full cost accounting for its petroleum and natural gas assets. This methodology enabled the capitalization of amounts exceeding those acceptable for IFRS. Under IFRS 1 on transition, the Company elected to allocate its full cost pool to its identified CGUs and then performed an impairment test.

Under GAAP all oil and gas assets were previously aggregated into one line item. Under IFRS undeveloped lands and mineral rights, and exploratory wells under evaluation have been reclassified. The reclassification resulted in $1,285,167 of exploration and evaluation costs being transferred from development and production assets.

Under the transitional election, an impairment test of the Company's assets was required at a CGU level subsequent to the allocation. The Company recognized an impairment write-down of $1,850,945 on its petroleum and natural gas assets at January 1, 2010. The write-downs were primarily recognized on its Alberta natural gas producing CGUs that have seen significant revisions in their reserve valuations as a result of decreasing natural gas prices in North America. Under the full cost pool method of the previous GAAP, the impairment test was conducted on an aggregate basis for all of the Company's oil and natural gas assets, allowing areas with excess fair value over the carrying costs to compensate for areas that had carrying costs in excess of the fair value.

During the six months ended June 30, 2010 an impairment of $232,673 was recognized on the Company's assets.

For the three months ended June 30, 2010, an impairment of $155,075 was recognized. The impairments reflect the historically low natural gas pricing environment and outlook.

(b) Exploration and evaluation

IFRS 6 "Exploration and Evaluation of Mineral Resources" requires the separate recognition of exploration assets that have not yet established a determinable future value in the form of technically feasible and commercially viable reserves. The $1,285,167 of exploration and evaluation costs recognized under IFRS on transition at January 1, 2010 represents the Company's interest in undeveloped lands and mineral rights, and exploratory wells under evaluation.

In the six months ended June 30, 2010, the Company recorded $229,477 to exploration and evaluation expense in relation to E&E expenditures not expected to be recovered.

During the three months ended June 30, 2010, the Company recorded $147,065 to exploration and evaluation expense in relation to E&E expenditures on undeveloped lands.

(c) Decommissioning liabilities

The estimated provision for decommissioning liabilities associated with the Company's petroleum and natural gas assets has been adjusted on transition to IFRS. The adjustment reflects the application of a risk free rate for the discounting of the liability (based on the underlying assets), where previously under GAAP this was measured using a credit risk adjusted rate. The

15. Transition to International Financial Reporting Standards (continued):

adjustment to the discounted decommissioning liability recognized at January 1, 2010 was an increase to the liability of $91,059. Under an IFRS 1 election, this adjustment has been offset directly to equity on transition. The adjustment to the discounted decommissioning liability recognized for the three and six months ended June 30, 2010 were increases of $13,966 and $102,439 respectively.

Under GAAP the accretion expense was presented as part of the depletion, depreciation and amortization expense. IFRS requires that the expense be presented as a financing cost.

(d) Deferred taxes

Under GAAP, the Company has recognized deferred tax assets and liabilities, primarily associated with its exploration and evaluation and development and production activities and flow-through share issuances.

Each of the balances adjusted through equity on transition to IFRS have been tax effected based on the Company's estimated rate of reversal, which approximates 28%. At January 1, 2010 the impact to deferred taxes was a decrease in the deferred tax liability of $584,526. During the six months ended June 30, the cumulative impact on the deferred tax liability was a decrease of $600,460. For the three months ended June 30, 2010, the cumulative impact on the deferred tax liability was an increase of $179,392. See the reconciliation of equity for adjustments that required a tax effect.

(e) Flow-through shares

Under GAAP, the aggregate tax effect of all flow-through share renouncements in excess of the premium liability associated with flow-through share issuances were recognized as a reduction of share capital. No specific guidance is provided regarding this issue under IFRS; however, it has been interpreted that guidance applied under US GAAP is acceptable under IFRS. Under US GAAP, issuance proceeds were disaggregated between the fair market value of the shares issued and the premium paid for the renounced expenditures. A deferred tax liability is accrued upon effective date of the renouncement and the deferred tax expense is charged to net earnings rather than to share capital.

On transition to IFRS at January 1, 2010, the adjustment recorded related to the 2007 and 2008 flow-through common shares that were renounced and fully expended, prior to December 31, 2009, was a credit to common shares of $395,912 and a corresponding debit to retained earnings for $395,912. For the 2009 flow-through share issuance the company debited the common shares by $295,242 and credited the flow-through share tax current liability for $295,242, to reflect the renouncement liability and corresponding decrease in the common shares at the date of transition. The net effect on the common shares was an increase of $100,669.

During 2010 the Company issued flow-through shares in April and December. For the six months ended June 30, 2010, the Company maintained the above transition adjustments and recorded additional adjustments of a debit to the deferred tax expense of $181,754, debit to the flow-through share tax current liability of $295,242 and credited the deferred tax liability $476,996.

For the three months ended June 30, 2010, the Company maintained the above transition adjustments and recorded the following adjustments. Second quarter adjustments included a debit to the deferred tax expense of $121,059, debit to the flow-through share tax current liability of $159,288 and credited the deferred tax liability $317,708. In addition, the Company issued flow-through shares in April 2010, resulting in decreasing the common shares by $251,818 and crediting the flow-through share tax current liability for $251,818, thereby setting up a flow-through liability related to the April 2010 issuance.

15. Transition to International Financial Reporting Standards (continued):

(f) Other presentation reclassification

The presentation of royalties under IFRS has changed from previous disclosures under GAAP. Previously, royalties were aggregated in a single line and shown as a reduction of total revenue in net earnings. Under IFRS, crown and freehold royalties have been netted from revenues.

Additionally, processing revenues have been presented as oil and gas revenues. Previously processing revenues had been included as an offset to production and operating expenses.

Administrative assets have been reclassified on the balance sheet from other capital assets to the property, plant and equipment classification. There was no change in the depreciation policy as a result of the IFRS conversion.

(g) Depletion, depreciation and amortization

Upon transition to IFRS, the Company adopted a policy of depleting its petroleum and natural gas assets on a unit of production basis over proved plus probable reserves, by depletable CGU. The depletion policy under GAAP was a unit of production over proved reserves in a single pool. There was no impact on adoption of IFRS at January 1, 2010, as provided by the IFRS 1 deemed cost allocation election. The changes resulted from the reduction of the Company's petroleum and natural gas asset base and the revised depletion methodology, along with reclassifications.

For the six months ended June 30, the DD&A expense increased by $15,536. The change resulted in an increase of $32,205 in combined depletion and impairments under IFRS, offset by $16,669 of accretion not recorded in DD&A and being reclassified to finance expense. Amortization of other assets remained the same.

For the three months ended June 30, 2010, the Company's DD&A increased $35,758. The change resulted in an increase of $44,764 in combined depletion and impairments under IFRS, offset by $9,005 of accretion not recorded in DD&A and being reclassified to finance expense. Amortization of other assets remained the same.

(h) Share based payments

Under GAAP, share based payments were recognized as an expense on a straight-line basis through the date of full vesting. Under IFRS, the expense is required to be recognized over the individual vesting periods for graded vesting awards. At January 1, 2010, this change in valuation resulted in an $85,045 increase in contributed surplus, and was offset directly to retained earnings.

During the six months ended June 30, 2010, the share based compensation expense decreased $50,994 with a corresponding decrease to contribute surplus. For the three months ended June 30, 2010, a decrease in share based compensation expense of $24,946. The changes resulted from the revised valuation methodology with corresponding increases to contributed surplus.

16. Subsequent Events

On July 31, 2011, the Company closed the sale of its non-core 35% working interest in two oil wells located near Provost, Alberta. The properties were sold for $750,000, with an effective date of June 1, 2011. The two wells on a combined basis were producing approximately 14 bbls of oil per day, net to Forent.

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