



**Management's Discussion and Analysis**  
**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 and MD&A for the periods ended June 30, 2011 and 2010.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") has been prepared by management as of August 25, 2011 and reviewed and approved by the Board of Directors of Forent Energy Ltd. ("Forent" or the "Company"). The MD&A reviews the operational results of the Company with disclosure of oil and gas activities in accordance with Canadian Securities Regulators National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and a review of financial results of the Company based on International Financial Reporting Standards ("IFRS"), which are the new accounting principles generally accepted in Canada ("GAAP"). Its focus is primarily a comparison of the operational and financial performance for the three and six months ended June 30, 2011 and 2010 and should be read in conjunction with the December 31, 2010 audited financial statements that were prepared under the previous Canadian generally accepted accounting principles ("previous GAAP") and the accompanying notes.*

*All financial measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated.*

### Forward Looking Information

*Certain statements contained in this report, including statements that may contain words such as "anticipates," "can," "may," "expect," "believe or believes" and "will" and similar expressions are forward-looking statements. These statements may include, but are not limited to, future capital expenditures, future financial resources, future oil and gas well activity, outcome of specific events, and trends in the oil and gas industry. These statements are derived from certain assumptions and analyses made by the Company based on its experience and interpretation of historical trends, current conditions and expected future developments, and other factors that it believes are appropriate in the circumstances. These statements or predictions are subject to a number of known and unknown risks and uncertainties, which are discussed previously in this report that could cause actual results to differ materially from the Company's expectations. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Company will be realized, or that they will have the expected consequences or effects on the Company or its business or operations. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.*

*For the purpose of calculating unit costs, natural gas volumes have been converted to a barrel equivalent ("boe") using six thousand cubic feet equal to one barrel unless otherwise stated. A boe conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms with national instrument NI51-101. Boe's may be misleading, particularly if used in isolation.*

*The terms funds from operations, funds from operations per share and operating netback are terms that do not have a standardized measuring prescribed by GAAP. Management believes that funds from operations, funds from operations per share and operating netback are useful supplemental measures as they demonstrate the Company's ability to generate the cash necessary to repay debt or fund future growth through capital investment. Investors are cautioned, however, that these measures should not be construed as an alternative to cash flow determined in accordance with GAAP as an indication of the Company's performance. Forent's method of calculating these measures may differ from other companies, and accordingly, may not be comparable to measures used by other companies. For these purposes, the Company defines funds from operations as cash provided by operations before changes in non-cash operating working capital and defines operating netback as revenue less royalties and operating expenses. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share.*

## **Introduction and Overview of Forent Energy Ltd.**

Forent Energy Ltd. is a crude oil and natural gas exploration and development company headquartered in Calgary, Alberta. The Company's operations include established oil and gas production in Alberta and Saskatchewan and the exploration for both oil and gas onshore in Nova Scotia.

Forent Energy Ltd. was incorporated under the Business Corporations Act of Alberta as a private company on April 6, 1999. Forent became a public company as a result of the reverse takeover of Seriatim Ventures Inc. a capital pool company listed on the TSX Venture Exchange, which was completed on December 18, 2008.

The Company's operational focus over the next one to two years is to continue its strategy of growth through heavy oil development drilling and focused exploration on its two core exploration areas consisting of i) the onshore Alton Block ("Alton") in Nova Scotia and ii) on its 27 section Montgomery, Alberta property ("Montgomery"). Forent has assembled a team of individuals with many years experience in both western Canada and frontier exploration, such as Nova Scotia, in order to take advantage of these opportunities.

## **EXECUTIVE SUMMARY & OUTLOOK**

### **Overview of the Second Quarter 2011**

The second quarter saw the Company make considerable progress on its two major exploration opportunities; the onshore Alton Block in Nova Scotia and its southern Alberta Montgomery exploration property. In addition, Forent successfully accessed the Canadian equity market, raising \$2.25 million (gross) in May, through the issue of flow through common shares, with the majority of the proceeds to be applied to the Company's Nova Scotia 2D seismic program. The Company achieved a significant increase in funds from operations in the three months ended June 30, 2011, over the same period of 2010, with funds from operations increasing to \$298,689 from funds used in operations of \$97,843, respectively. Most of this increase is attributable to the successful redevelopment of the Company's Mervin, Saskatchewan property.

#### *Montgomery, Alberta*

The Company completed its interpretation of the 23 section 3D seismic data that was acquired in December 2010 and initiated its search for a partner to explore its 27 contiguous sections in southern Alberta. At this time the Company has narrowed its search for potential partners and is working with a couple of entities. The Company is hopeful that it can identify a partner shortly.

Forent holds a unique exploration land position at Montgomery, where it has identified a number of drilling locations, including multi-zone, three-way structural closures of significant areal extent, as well as, a number of Second White Specs prospects, that appear similar to a very successful nearby Second White Specs well. The lands have never been explored due to lack of surface access, which Forent was able to obtain late last year. During the second quarter the Company continued to expand its program of engaging the local surface land owners in order to help to ensure that any access concerns are identified and addressed prior to drilling and operations are conducted in a safe, effective and acceptable manner, with limited impact to the environment. This has included a recent assessment of the native grasses and wild flowers on the lands.

#### *Alton Block, Nova Scotia*

Forent initiated its 2011 exploration program early in the second quarter. On April 26<sup>th</sup> the Company held a successful Open House in Stewiacke, Nova Scotia to review its 65 km 2D seismic program with local residents. Approximately 60 residents and interested parties attended the meeting and shortly thereafter the seismic permitting process was initiated. All preparatory work necessary for the seismic acquisition program was completed by the end of June.

The Company has dedicated considerable resources to ensuring that all stakeholders, including members of nearby First Nations, understand Forent's 2011 objectives for the Alton Block. While there were a

number of issues raised by local residents, the Company addressed all concerns to the residents' satisfaction and was able to conduct a successful seismic acquisition program, on time and on budget. Onshore petroleum exploration in Nova Scotia is an industry that's in its infancy in comparison to the western Canadian sedimentary basin. Forent has taken an approach that is focused on ensuring all stakeholders are informed and educated as to the exploration process that the Company is pursuing. Specifically, the Company has indicated that it is drilling for crude oil into the reef structures it has identified and will not need to hydraulically fracture any of the proposed wells.

#### *Mervin, Saskatchewan*

During the first quarter of 2011, the Company experienced a significant increase in the amount of water produced with the oil and production was shut down for most of the month of February. Although production was largely restored during the second quarter, operating costs remained high due to an increase in the volume of water produced. After breakup, the Company initiated a program to tie its six producing wells into its water disposal well but was delayed in this effort as a result of surface access impediments, which have now been resolved. Forent expects to have this tie-in completed early in September, at which time significant cost savings are likely to be achieved.

#### **Financial and operating – Second Quarter of 2011**

- Average oil and gas production in the second quarter increased by 86 percent compared to 2010;
- average commodity selling prices for oil, NGL's and natural gas increased by 95 percent vs. 2010;
- overall oil and gas revenues increased by 198 percent to \$1,297,141 from \$435,054 in 2010;
- operating expenses per boe increased 15 percent to \$23.09 per boe from \$20.14 in 2010;
- corporate operating netbacks for the quarter improved appreciably from negative \$9.28 per boe in 2010 to a positive \$9.71 per boe in 2011, the first time in the Company's history that it has experienced a positive corporate netback;
- general and administrative expenses increased 46 percent, but fell on a per boe basis by 23 percent to \$15.67 per boe; and
- the Company generated cash flow of \$298,689 in the first quarter of 2011, compared to a cash burn of \$97,843 in 2010.

#### **Outlook for the balance of 2011**

The Company has significant plans for the balance of the year that should not only result in increased cash flow over the near term but also position Forent for meaningful future growth.

In Mervin, Saskatchewan the Company should complete the tie-in of the six producing wells into the salt water disposal well by early in September and anticipates saving close to \$75,000 per month in operating costs. In addition, the Company should be able to more effectively accommodate third party salt water, thereby allowing it to establish additional revenues from a source that is independent of corporate oil and gas production levels.

The Company is continuing to seek a partner for its Montgomery, Alberta exploration opportunity, with the intention of completing a multiple well farm-out in the third quarter of the year. Forent expects the first well to be spud in the fourth quarter of the year.

In Nova Scotia, the Company completed its 65 km 2D seismic acquisition program at the end of July. The data has been processed and interpreted, as well as, being correlated to the information obtained from

Forent's 2010 gravity gradiometry survey. Forent intends to submit an application to the government of Nova Scotia for the drilling of three exploration wells by the end of August and anticipates initiating drilling by early November 2011. A drilling rig, located in New Brunswick, has been secured and three locations identified. Forent is maintaining its comprehensive communications strategy in Nova Scotia, in a proactive effort to ensure a successful drilling program later this year.

The Common shares of Forent are listed for trading on the TSX Venture Exchange under the symbol FEN.

Additional information regarding Forent is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Information is also accessible on the Company's website [www.forentenergy.com](http://www.forentenergy.com).

### **Changes in Accounting Policy**

As of January 1, 2011, Forent prepared its financial statements in accordance with International Financial reporting Standards ("IFRS"), including IFRS 1 – First time adoption of IFRS and International Accounting Standard 34 – Interim Financial Reporting, as issued by the International Accounting Standards Board. Previously, the Company's financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has not had an impact on the Company's funds flow. The most significant areas that were impacted by the adoption of IFRS were property, plant and equipment, decommissioning liabilities, share capital treatment of flow-through shares and the deferred tax adjustments related to all of the above.

### **Subsequent Event**

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.

## Financial Results

### Production

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change (%)	2011	2010	Change (%)
<b>Daily Production</b>						
Natural gas (mcf/d)	465	706	(34)	512	635	(19)
Crude oil and NGLs (bbls/d)	204	33	518	176	28	529
Boe/d	281	151	86	262	134	96
	(%)	(%)	(%)	(%)	(%)	(%)
<b>Production Mix</b>						
Natural gas	28	78	(64)	33	79	(58)
Crude oil and NGLs	72	22	227	67	21	219
	100	100		100	100	

The Company's overall production for the second quarter of 2011 averaged 281 boe/d, an increase of 86% from the 151 boe/d recorded during the same period of 2010. Natural gas production decreased 34% in the second quarter of 2011 to 465 mcf/d from 706 mcf/d in the same quarter of 2010. The decrease in natural gas production was primarily a result of the production declines at the Company's Ferrybank 8-32 natural gas well, between the two periods. Crude oil and natural gas liquids ("NGLs") production increased by 518% to 204 bbls/d during the three months ended June 30, 2011 from 33 bbls/d in the same period of 2010. The Mervin, Saskatchewan heavy oil wells accounted for the majority of the crude oil and NGLs increase, as they were brought on stream starting in May 2010, therefore contributing incremental crude oil production in 2011.

Company production volumes for the first half of 2011 increased 96%, averaging 262 boe/d compared to 134 boe/d in the corresponding period of 2010. Natural gas production decreased 19% to 512 mcf/d from 635 mcf/d during the six months ended June 30, 2011 and 2010, respectively. The decrease in natural gas production was primarily a result of the production declines at the Company's Ferrybank 8-32 natural gas well, between the two periods. Crude oil and NGLs production increased to 176 bbls/d during the first half of 2011, from 28 bbls/d during the same period of 2010, representing an increase of 529%. The significant increase in crude oil and NGL production was primarily the result of the Mervin, Saskatchewan heavy oil wells being brought on stream starting in May 2010 and having that incremental crude oil production in 2011.

Natural gas revenue represented 28% and 72% of the Company's total sales in the three months ended June 30, 2011 and 2010, respectively. Crude oil and NGLs grew significantly to round out the Company's production base representing 72% of production in the first quarter of 2010, as compared to 22% in the same period of 2010. The Company's decrease in natural gas weighting to focusing on crude oil and NGL production was a strategic shift in an attempt to provide higher ongoing cash flows from the higher profit margin commodity of crude oil and NGLs relative to natural gas.

### Natural Gas Prices

United States natural gas prices are commonly referenced off the New York Mercantile Exchange at the Henry Hub, Louisiana ("NYMEX") index price, while Canadian natural gas prices are typically referenced to the AECO Hub in Alberta ("AECO"). Natural gas prices are primarily influenced by North American supply and demand rather than global fundamentals. In the first half of 2011, the AECO natural gas price averaged \$3.82/mcf compared to \$4.64/mcf in the same period of 2010. The lower natural gas prices in 2011 compared to 2010 were a result of weak demand, as a consequence of the weak American economic recovery and strong supply resulting from various new shale gas projects, which led to an abundant supply of natural gas throughout 2010 and into 2011.

## Crude Oil Prices

Alberta crude oil prices are commonly referenced to Edmonton par pricing with adjustments being taken to reflect the quality of the actual produced crude oil. The average Edmonton par pricing for the first half of 2011 was \$95.57/bbl and \$77.88/bbl in the same period of 2010. The majority of Forent's crude oil production consists of heavy oil that has historically sold at a discount relative to the Edmonton par pricing. Oil prices strengthened in 2011 largely as a result of increased global demand attributable to the global economic recovery. In addition, political uncertainty positively affected prices by adding a risk premium to international prices.

## Pricing

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
<b>Selling Prices</b>						
Natural gas (\$/mcf)	4.15	3.86	8	4.20	4.33	(3)
Crude oil and NGLs (\$/bbl) <sup>(1)</sup>	71.81	69.14	4	66.82	70.32	(5)
Average weighted selling price (\$/boe)	58.88	30.26	95	53.25	33.51	59

(1) Combined crude oil and NGLs pricing may result in prices that are significantly different than those received for crude oil in isolation, due to NGLs being priced on a different basis than crude oil.

Average natural gas prices received by Forent increased 8% in second quarter of 2011 to \$4.15/mcf from \$3.86/mcf received during the same quarter of 2010. Crude oil and NGLs prices increased by 4%, to \$71.81/bbl recorded during the second quarter of 2011 from \$69.14/bbl in the same quarter of 2010. Selling prices for the six months ended June 30, 2011 averaged \$4.20/mcf for natural gas and \$66.82/bbl for crude oil and NGLs compared to \$4.33/mcf and \$70.32/bbl, respectively, during the same six months period of 2010. The Company's selling prices of crude oil and natural gas were relatively consistent between the periods.

## Oil and Gas Revenue

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
<b>Revenue</b>						
Natural gas sales	175,507	245,248	(28)	389,036	498,341	(22)
Crude oil and NGLs sales	1,331,996	205,974	547	2,131,625	352,586	505
Total petroleum sales	1,507,503	451,222	234	2,520,661	850,927	196
Less: Crown and freehold royalties	(260,250)	(39,055)	566	(388,418)	(119,611)	225
Net oil, NGLs and natural gas sales	1,247,253	412,167	203	2,132,243	731,316	192
Other oil and natural gas operating revenues	49,888	22,887	118	85,922	45,829	87
Total oil and natural gas revenues	1,297,141	435,054	198	2,218,165	777,145	185

The Company's total oil and gas revenue for the three months ended June 30, 2011, totalled \$1,297,141, an increase of 198% from the same period of 2010, when revenue totalled \$435,054. Gross natural gas revenues decreased 28%, to \$175,507 in the first quarter of 2011 from \$245,258 in 2010, as a result of the modest decrease in production, which was partially offset by higher natural gas prices. Crude oil and NGL revenues increased significantly between the first quarters of 2011 and 2010, to \$1,331,996 from

\$205,974, respectively, primarily as a result of production from the 6 heavy oil well reactivations at the Company's Mervin property in May of 2010.

During the six months ended June 30, 2011, the Company's total oil and gas revenue increased 185% to \$2,218,165, from \$777,145 generated in the same period of 2010. Gross natural gas revenues decreased 22%, to \$389,036 in the first half of 2011 from \$498,341 in 2010, as a result of the modest decrease in production, which was partially offset by higher natural gas prices. Crude oil and NGL revenues increased 505% to \$2,131,625 during the six months ended June 30, 2011, from \$731,316 received in the same period of 2010. The increase was primarily attributed to the reactivation of Company's Mervin property in May of 2010.

### Royalty Expense

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Total royalties	<b>260,250</b>	39,055	566	<b>388,418</b>	119,611	225
As a % of oil and gas sales	<b>17%</b>	9%	89	<b>15%</b>	14%	7
\$/boe	<b>10.16</b>	2.88	253	<b>8.21</b>	4.95	66

During the three months ended June 30, 2011, the Company's royalty expense increased 566% to \$260,250 from \$39,055 in the same period of 2010. The increase in the royalty expense was primarily due to increased crude oil production, which was partially offset by additional custom processing and operating cost credits on Alberta crown royalties. In the six months ended June 30, 2011, royalty expense increased 225% to \$388,418 from \$119,611 in the same period of the 2010, as a result of the increased production and petroleum revenues, which were somewhat offset by crown royalty credits as described above.

Royalties as a percentage of sales for the three months ended June 30, 2011 totalled 17% of oil and gas sales, which was a 89% increase from the 9% calculated for the same period of 2010. The increase in royalties as a percentage of sales is primarily attributed with the Company having more of its production attributed to higher royalty rates associated with greater production levels on an individual well basis.

### Operating Expenses

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Operating expenses	<b>591,071</b>	273,223	116	<b>1,238,844</b>	513,760	141
Operating expenses (\$/boe)	<b>23.09</b>	20.14	15	<b>26.17</b>	21.25	23

Operating expenses increased 116% to \$591,071 in the second quarter of 2011 compared to \$273,223 in same quarter of 2010. The increase in operating expenses was a related to the higher production volumes resulting from the addition of the new wells in Mervin and Provost, along with small production increases from a number of additional Company wells. On a per boe basis, operating expenses increased 15% to \$23.09 per boe in the three months ended June 30, 2011 from \$20.14 per boe in the same period of 2010, as a result of the significant water hauling costs incurred at the Company's Mervin heavy oil property.

During the six months ended June 30, 2011, operating costs increased 141% to \$1,238,844 from \$513,760 in the same period of 2010, reflecting the year-over-year increase in production. On a per boe basis, operating expenses increased by 23% as a result of the significant water hauling costs incurred at the Company's Mervin heavy oil property.

In September 2011 the Company expects to complete the tie-in of the Mervin heavy oil wells to its water disposal well in that field that should allow for cost savings of \$75,000 a month and result in considerably lower operating cost per boe.

#### *General and Administrative ("G&A") Expenses*

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Gross expenses	<b>428,328</b>	308,148	39	<b>738,567</b>	601,178	23
Overhead recoveries	<b>(27,200)</b>	(32,772)	(17)	<b>(53,245)</b>	(66,172)	(20)
Total G&A expense	<b>401,128</b>	275,376	46	<b>685,322</b>	535,006	28
\$/boe	<b>15.67</b>	20.30	(23)	<b>14.48</b>	22.13	(35)

During the three months ended June 30, 2011, general and administrative expenses increased 46% to \$401,128 from \$275,376 in the same period of 2010. The increase in general and administrative expenses was a result of additional employee and consulting expenses. In the six months ended June 30, 2011, general and administrative expenses increase 28% to \$685,322 from \$535,006 in the corresponding period of 2010. The increase in the six month periods was primarily related to the additional employee and consulting expenses to continue its exploration and development plans of the Montgomery, Alberta and Alton, Nova Scotia projects.

The overhead recoveries from partners, related to Forent operated projects, decreased 17% to \$27,200 in the three months ended June 30, 2011, compared to \$32,772 in the same period of 2010. The decrease was due to a reduction in Forent operated capital projects in 2011 that had joint venture partners. Overhead recoveries from partners are earned primarily on the Huxley area wells and gas plant and gas gathering system that the Company operates, along with operated capital projects.

#### *Stock Based Compensation*

Stock-based compensation expense decreased 47% to \$44,915 in the second quarter of 2011 from \$84,040 in the same period of 2010. During the six months ended June 30, 2011, the stock-based compensation expense increased 48% to \$163,037 from \$110,088 in the same period of 2010. The increase in stock based compensation during the first half of 2011 was a result of 2,760,000 stock options being granted on February 4, 2011 and the additional expense related to the immediate vesting of one third of those stock options. The total number of options outstanding as at June 30, 2010 is 6,367,687 with a weighted average exercise price of \$0.26 and life of 4.26 years.

### Operating Netbacks per boe

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$/boe)	(\$/boe)	(%)	(\$/boe)	(\$/boe)	(%)
Sales price	<b>58.88</b>	33.26	77	<b>53.25</b>	35.19	51
Royalties	<b>(10.16)</b>	(2.88)	253	<b>(8.21)</b>	(4.95)	66
Operating	<b>(23.09)</b>	(20.14)	15	<b>(26.17)</b>	(21.25)	23
Operating netback	<b>25.63</b>	10.24	150	<b>18.87</b>	8.99	110
G&A (net of non-cash items)	<b>(15.67)</b>	(20.30)	(23)	<b>(14.48)</b>	(22.13)	(35)
Interest and other (net of non-cash items)	<b>(0.25)</b>	0.78	(132)	<b>(0.27)</b>	0.16	(269)
Corporate netback (loss)	<b>9.71</b>	(9.28)	(205)	<b>4.12</b>	(12.98)	(132)

During the second quarter of 2011 the Company's operating netback increased to \$25.63/boe from a \$10.24/boe recorded in same period of 2010. During the six months ended June 30, 2011 the operating netback improved from \$8.99/boe in same period of 2010, to a netback of \$18.87/boe. The increases were attributed to the shift towards a greater proportion of oil as compared to natural gas, the significant improvement in oil and gas selling prices, partially offset by higher operating costs and higher royalties, on a per boe basis during the periods.

On a corporate netback basis, the deficit in netback funds flow improved to positive cash flow of \$9.71/boe in the second quarter 2011, from a negative netback of \$9.28/boe in the same quarter of 2010. During the first half of 2011 the Company's corporate netback deficit improved to \$4.12/boe from a deficit of \$12.98/boe in the same period of 2010. The significant corporate netback improvement in the three and six month periods was a result of increased production, a higher ratio of oil to gas, increased selling prices and a significant decrease in general and administrative costs on a per boe basis.

### Depletion and Depreciation

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
DD&A provision	<b>395,291</b>	437,165	(10)	<b>882,031</b>	739,439	19
DD&A provision (\$/boe)	<b>15.44</b>	32.22	(52)	<b>18.63</b>	30.58	(39)

The DD&A provision decreased 10% to \$395,291 in the second quarter of 2011, as compared to \$437,165 in the same period of 2010. During the six months ended June 30, 2011 the DD&A provision increased 19% to \$882,031 from \$739,439 during the same period of 2010. The significant increase was a result of increased Company production volumes. On a per boe basis, the DD&A provision decreased 52% to \$15.44/boe from \$32.22/boe in the three months ended periods of June 30, 2011 and 2010, respectively.

### Income Taxes

For the three months ended June 30, 2011, there was a future income tax recovery of \$59,825 recorded in the period, compared to a recovery of \$478,258 recorded in the same period of 2010. The changes in this non-cash item are due to the anticipated future tax effect of the period's activities after reconciling recorded net assets with the Company's tax pool assets at the end of each period. The change in the future income tax recovery in the second quarter of 2011, as compared to the same quarter of 2010, was primarily due to the decreased capital exploration spending in 2011 resulting in a reduction of temporary differences between the periods.

As at June 30, 2011, the Company had approximately \$9.4 million in tax pools available to shelter taxable income in future years.

### Funds from Operations

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Cash flow (used in) from operating activities (per GAAP)	<b>732,765</b>	417,814	75	<b>605,755</b>	(532,584)	(214)
Change in non-cash working capital	<b>(434,076)</b>	(515,657)	(16)	<b>(318,112)</b>	275,029	(216)
Funds from (used in) operations	<b>298,689</b>	(97,843)	(405)	<b>287,643</b>	(257,555)	(212)

The Company determines funds from operations as cash provided from operations before changes in non-cash operating working capital.

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Funds from (used in) operations	<b>298,689</b>	(97,843)	(405)	<b>287,643</b>	(257,555)	(212)
Per share – basic and diluted	-	-	-	-	-	-

Funds from operations increased to a positive \$298,689 (\$nil per basic and diluted share) for the three months ended June 30, 2011 versus funds used in operations of \$97,843 (\$nil per basic and diluted share) in the comparable period of 2010. During the six months ended June 30, 2011, the funds from operations increased to \$287,643 (\$nil per basic and diluted share) from funds used in operations of \$257,555 (\$nil per basic and diluted share) in the same period of the prior year. The improvement in the three and six month period cash flows was primarily attributable to the greater volumes of Company production, improvement in commodity selling prices and a greater percentage of revenues being derived from crude oil and natural gas liquids.

### Net earnings

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Net loss	<b>(81,756)</b>	(292,984)	(72)	<b>(662,971)</b>	(1,190,234)	(44)
Per share – basic and diluted	-	-	-	<b>(0.01)</b>	(0.02)	(50)

During the second quarter of 2011, the Company recorded a net loss of \$81,756 (\$nil per basic and diluted share) versus a net loss of \$292,984 (\$nil per basic and diluted share) in the same period of 2010. In the six month period ended June 30, 2011, the Company incurred a net loss of \$662,971 (\$0.01 per basic and diluted share) as compared to the net loss of \$1,190,234 (\$0.02 per basic and diluted share) recorded in the corresponding period of 2010. The decrease in the Company's net loss during the three and six months ended periods of September 30, 2011, as compared to the same periods of 2010, is largely a result of the operating profitability being contributed by the Mervin production field.

### Capital Expenditures

During the second quarter of 2011, the Company spent \$778,976 on exploration and development activities and other items compared to \$2,158,206 in the same period of 2010. The expenditures primarily consisted of additional land being purchased within the Montgomery project area, the commencement of the 2D seismic program at Alton and facility upgrades at its water disposal facility at Mervin. The water disposal facility will dispose of produced water from the Company's six Mervin wells

and have the capacity to take third-party volumes, thereby allowing Forent to seeing significant cost savings and a potential new revenue source.

### *Liquidity and Capital Resources*

	Three months ended June 30,			Six months ended June 30,		
	2011	2010	Change	2011	2010	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Working capital, beginning of year	<b>240,306</b>	451,589	(47)	<b>221,941</b>	887,682	(75)
Funds from operations	<b>298,689</b>	(97,843)	(405)	<b>287,643</b>	(257,555)	(212)
Issue of capital stock (net)	<b>1,855,172</b>	4,242,373	(56)	<b>2,581,424</b>	4,420,775	(42)
Capital expenditures (net)	<b>(778,976)</b>	(2,158,206)	(64)	<b>(1,475,817)</b>	(2,612,989)	(44)
Working capital, end of year	<b>1,615,191</b>	2,437,913	(34)	<b>1,615,191</b>	2,437,913	(34)

Forent opened 2011 with a working capital surplus of \$0.2 million. The change in the Company's net working capital resulted from funds from operations of \$0.3 million, net equity of \$2.6 million from a flow-through share financing and warrant exercises, net capital expenditures totalling \$1.5 million, thereby leaving the Company with a working capital surplus of \$1.6 million at June 30, 2011.

The Company's 2011 capital budget includes up to \$5 million to conduct a 2D seismic program and to drill three exploration wells on the Alton Block in Nova Scotia. The anticipated expenditures will be applied towards the Alton Block commitment Forent made under its three year exploration license requiring \$6.3 million to be expended over the three year term ending April 8, 2014. The Company has expended approximately \$0.6 million of the \$2.1 million commitment at Beech Hill under its 3 year exploration licence, which was to be satisfied by April 30, 2011. The Company is currently reviewing its exploration program and future capital expenditures at Beech Hill. The Company has provided the government of Nova Scotia \$0.185 million in deposits for the Alton and Beech Hill Blocks and its maximum loss is limited to the loss of the specified deposit associated with each exploration lease should Forent not meet its commitments in the respective area and should the government decide to retain all or a portion of the deposits.

The Company intends to raise new capital or utilize other alternative means such as joint venturing to meet the stated Nova Scotia commitments, however, there is no certainty that the financing activities will be successful. Additional capital expenditures may be made if funds from operations are available to develop various oil focused, low risk projects in western Canada.

### *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 115,231,188 common shares outstanding and no preferred shares outstanding.

The following table is a summary of the Company's share information as at the periods indicated:

Six months ended June 30,	2011	2010
	(#)	(#)
<b>Common Shares</b>		
Balance – beginning of year	102,847,022	69,937,686
Issued pursuant to acquisition of Edelex	-	327,771
Issued pursuant to private placements	9,379,167	21,470,455
Issued pursuant to warrants exercised	3,004,999	-
Balance – end of period	115,231,188	91,735,912
<b>Weighted Average Common Shares Outstanding<sup>(1)</sup></b>		
Basic and Diluted	105,904,706	79,280,676
<b>Share Purchase Warrants</b>		
Balance – beginning of year	15,505,755	7,918,255
Issue of warrants	488,833	7,587,500
Exercise of warrants	(3,004,999)	-
Expiry of warrants	(3,585,926)	-
Balance – end of period	9,403,663	15,505,755
<b>Stock Options</b>		
Beginning of period	5,704,490	4,841,110
Granted	2,760,000	945,000
Cancelled	(207,454)	-
Granted pursuant to re-pricing	1,889,355	-
Cancelled pursuant to re-pricing	(3,778,704)	-
End of period	6,367,687	5,786,110

(1) *Anti-dilutive stock options and warrants have been excluded from the dilution calculation.*

## Quarterly and Annual Data

	Three months ended Sep. 30, 2010	Three months ended Dec. 31, 2010	Three months ended Mar. 31, 2011	Three months ended Jun. 30, 2011
	(\$)	(\$)	(\$)	(\$)
Oil and gas revenue	773,448	1,152,596	921,024	1,297,141
Funds from (used in) operations <sup>(1)</sup>	49,174	180,398	(11,046)	298,689
Per share – basic and diluted	-	-	-	-
Net loss	(747,088)	(175,848)	(581,215)	(81,756)
Per share – basic and diluted	(0.01)	-	-	-
Capital expenditures	1,661,156	2,314,446	696,841	778,976
Working capital	562,961	221,941	240,306	1,615,191
Shareholders' equity	9,237,351	11,004,627	10,711,068	12,599,563
Average daily production				
Natural gas (mcf/d)	604	736	559	465
Crude oil and NGLs (bbls/d)	116	194	148	204
Total (boe/d)	216	317	241	281

	Previous Canadian GAAP		Current Canadian GAAP	
	Three months ended Sep. 30, 2009	Three months ended Dec. 31, 2009	Three months ended Mar. 31, 2010	Three months ended Jun. 30, 2010
	(\$)	(\$)	(\$)	(\$)
Oil and gas revenue	98,180	210,909	342,091	435,054
Funds from (used in) operations <sup>(1)</sup>	(329,165)	(157,857)	(159,712)	(97,843)
Per share – basic and diluted <sup>(2)</sup>	(0.01)	-	-	-
Net loss	(460,918)	(349,768)	(897,250)	(292,986)
Per share – basic and diluted <sup>(2)</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures	268,117	1,706,217	454,782	2,247,687
Working capital	259,164	1,182,925	451,589	2,437,913
Shareholders' equity	6,002,434	8,690,124	6,246,631	10,182,761
Average daily production				
Natural gas (mcf/d)	368	434	572	698
Crude oil and NGLs (bbls/d)	3	5	23	33
Total (boe/d)	64	77	118	149

(1) Funds from operations is defined as cash provided by operations before changes in non-cash operating working capital.

### *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:

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

### *Off Balance Sheet Transactions*

Forent was not involved in any off balance sheet transactions as at June 30, 2011. In addition, the Company did not have any outstanding risk management contracts as at June 30, 2011.

### *Contractual 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.

The Company is committed to expend a minimum of \$6,300,000 on the Alton Block over a three year period, ending April 8, 2014, in a work program consisting of initiation and interpretation of geological, geophysical, geomagnetic and geochemical data and culminating in an exploration and well testing program within the boundaries of the Alton Block. The Company's 2011 capital budget includes up to \$5 million to conduct a 2D seismic program and to drill three exploration wells on the Alton Block in Nova Scotia, which will be applied towards the commitment.

The commitment made by Forent on the Beech Hill Block is to expend a minimum of \$2,070,000 over a three year period, ending May 1, 2011, in a work program including initiation and interpretation of geological and geophysical data and the possible completion of an exploration well. 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.

## **Transition to IFRS from Canadian GAAP**

A reconciliation of the new and revised standards and interpretations is outlined in Note 15 of the June 30, 2011 interim consolidated financial statements.

The following discussion explains the significant differences between previous Canadian GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been applied retrospectively except where IFRS 1 exemptions permitted an alternative treatment upon transition to IFRS for first time adopters.

### *Property, Plant and Equipment ("PP&E")*

For PP&E a Company has the option to elect fair value at the date of transition as the deemed cost for its PP&E or to use a revalued amount according to its previous Canadian GAAP if the revaluation, at the date of revaluation, is comparable to fair value or depreciated cost in accordance with IFRS or to measure oil and gas assets at the date of the transition to IFRS at the amount previously determined under previous Canadian GAAP.

Forent has elected to value its P&E as previously determined under Canadian GAAP. The measurement upon transition to IFRS is as follows: 1) exploration and evaluation assets were reclassified from the full cost pool method to exploration and evaluation ("E&E") assets at the amount that was previously recorded under Canadian GAAP, and 2) the remaining full cost pool of costs was allocated to development and producing assets on a pro-rata basis using reserve values discounted at 10% for its proved plus probable company interest reserves. This resulted in \$1,285,167 of E&E costs being transferred from development and production assets.

### *Exploration and Evaluation*

Under previous Canadian GAAP, petroleum and natural gas properties included certain exploration and evaluation expenditures incurred within a country based cost centre. These costs include, but are not limited to, exploration license expenditures, leasehold acquisition costs, evaluation costs including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. Under IFRS, such exploration and evaluation expenditures are recognized as tangible or intangible based on their nature and subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are expensed.

Exploration and evaluation assets at January 1, 2010 were deemed to be \$1,285,167, being the amount recorded as the undeveloped properties without proved or probable reserves attributed under previous Canadian GAAP. This has resulted in \$1,285,167 being reclassification from property, plant and equipment to E&E assets in the opening IFRS balance sheet. 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.

### *Decommissioning liabilities*

Under Canadian GAAP the Company discounted its liability using a credit-adjusted risk free rate. Under IFRS, the Company has chosen to use a risk-free discount rate. Therefore under IFRS the decommissioning liabilities are higher due to the lower discount rates used. IFRS 1 provides an exemption, which the Company has elected, and allows the Company to measure decommissioning liabilities as at the date of transition and to recognize directly in the Company's retained earnings any

difference between that amount and the carrying amount of those liabilities at the date of transition to IFRS.

The adjustment to the discounted decommissioning liability recognized at January 1, 2010 was \$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.

#### *Depletion Policy*

Previous Canadian GAAP provided specific guidelines on the calculation of depletion for oil and natural gas properties. Previously, depletion was calculated on the unit-of-production method using proved reserves as their base. Under IFRS, the Company had a choice as to the reserve base used in its depletion calculations. The Company has adopted the policy of depleting its oil and natural gas properties using its proved plus probable reserve base. Also, depletion calculations under previous GAAP were done on a country based cost centre basis with Forent only having one cost centre. Under IFRS, the Company is required to calculate depletion based on individual components that the Company has identified to be at the geographic area level. The adoption of this policy was effective as of the transition date.

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. Ceiling test impairments recognized under GAAP were previously disclosed in depletion and depreciation.

#### *Impairment Test*

IFRS requires an asset impairment test to be conducted on the transition date and subsequently when indicators of impairment are present. Under Canadian GAAP, impairment of long-lived assets is assessed on the basis of an asset's estimated undiscounted future cash flows compared with the asset's carrying amount and if impairment is indicated, discounted cash flows are prepared to quantify the amount of impairment. The impairment test under previous Canadian GAAP was done at the cost centre level with Forent only having one cost centre.

IFRS requires the impairment test to occur at the asset level or the cash generating unit ("CGU") level when long-lived assets exist that do not generate independent cash inflows. The carrying amount of the asset or CGU is compared to its recoverable amount which is the higher of the value-in-use or the fair value of the assets less the costs to sell it.

Forent performed an impairment test on transition to IFRS as at January 1, 2010 based on fair value less estimated costs to sell. Fair value was based on the most recent reserve report as evaluated by the Company's independent engineers. The Company recorded an impairment of \$2,175,952 on the transition date.

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 forecasted outlook.

#### *Flow-through Shares*

Under GAAP, the aggregate tax effect of all flow-through share renunciations 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.

### **Critical Accounting Estimates**

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.

#### *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.

## **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.

### *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 an 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.

## **Risks and Uncertainties**

The Company is exposed to a number of risks and uncertainties inherent in exploring for, developing and producing crude oil and natural gas. These risks and uncertainties include but are not limited to, the following:

- risk of finding and producing reserves economically;
- uncertainty associated with obtaining drilling licenses and other consents and approvals;
- production risk associated with sour hydrocarbons;
- marketing reserves at acceptable prices;
- cost of capital risk associated with securing the needed capital to carry out the Company's operations;
- risk of fluctuating foreign currency exchange rates;
- risk of governmental policies, social instability or other political, economic or diplomatic developments in its operations;
- market risks associated with investing the Company's cash reserves in interest bearing depository instruments; and
- environmental risks related to its oil and gas properties.

Many of the previously mentioned risks are beyond the Company's control, and it is impossible to ensure that any exploration drilling program will result in commercial operations. As at December 31, 2010 the Company had no derivative instruments to hedge its commodity price, foreign currency exchange or interest rate risks in place. The Company may enter into such risk management contracts from time to time as appropriate.

Forent strives to minimize and manage these risks in a number of ways including:

- Employing qualified professional technical staff;
- Communicating openly with members of the public regarding its activities;
- Concentrating in a limited number of areas;
- Utilizing the latest technology for finding and developing reserves;
- Constructing high-quality, environmentally sensitive, safe production facilities; and
- Maximizing operational control of drilling and producing operations;

### **Design and Evaluation of Internal Controls Related to Disclosure Controls and Procedures**

The CEO and CFO of Forent is responsible for designing internal controls or causing them to be designed under his supervision, in order to provide reasonable assurance regarding disclosure controls and procedures that: (1) ensures information required to be disclosed by the Company is assembled and communicated to management; and (2) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The Company's CEO and CFO has concluded based on his evaluation that disclosure controls and procedures are effective as at June 30, 2011.

### **Design and Evaluation of Internal Controls Related to Financial Reporting**

The CEO and CFO of Forent is responsible for designing internal controls over financial reporting or causing them to be designed under his supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the Company's internal control over financial reporting as of June 30, 2011 and has certified that the controls over financial reporting are effective and includes those policies and procedures that:

- pertain to the maintenance of records with such reasonable detail that accurately and fairly reflects the transactions of the issuer;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with Canadian GAAP and that the receipts and expenditures of the issuer are being made in accordance with the authorization of the management and directors of the Company; and
- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual or interim financial statements.

Despite the CEO and CFO certifying that the Company's internal controls over financial reporting and disclosure controls and procedures are effective to provide a reasonable level of assurance, he is not able to conclude that the controls and procedures are capable of preventing all frauds and errors. Regardless of how well conceived or managed, a control system is incapable of providing absolute assurance to prevent all errors and fraud, as only reasonable assurance that the objectives of a control system can be obtained.

**DIRECTORS**

W. Brett Wilson<sup>1,2,3</sup>

John A. Forgeron

Thomas E. Lester

Douglas Porter<sup>1</sup>

Scott Reeves

Wayne Rousch<sup>1,3</sup>

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

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

<sup>3</sup> *Technical Committee*

**OFFICERS**

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Ian Shook, Vice President Exploration

Scott McDonald, Executive Vice President

Scott Reeves, Corporate Secretary

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