



**Management's Discussion and Analysis**  
**Three and Nine Months Ended September 30, 2012 and 2011**

In accordance with National Instrument 51-102 *CONTINUOUS DISCLOSURE OBLIGATIONS*, the Company discloses that its auditors have not reviewed the unaudited Financial Statements for the periods ended September 30, 2012 and 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") has been prepared by management as of November 15, 2012 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 accounting principles generally accepted in Canada. Its focus is primarily a comparison of the operational and financial performance for the three and nine months ended September 30, 2012 and 2011. This MD&A should be read in conjunction with the Corporation's audited financial statements and notes thereto for the year ended December 31, 2011. In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and to require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. In this MD&A, the term "previous GAAP" refers to Canadian GAAP before the adoption of IFRS.*

*As a result of changes in interpretations of IFRS standards the quarterly information has been restated for comparative periods.*

*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 equivalent 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 NI 51-101. 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 IFRS. 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 IFRS 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 production, exploration and development company headquartered in Calgary, Alberta. The Company's operations include established oil and gas production in Alberta and Saskatchewan and exploration for both oil and gas onshore in Nova Scotia and in Alberta.

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 year is to continue its strategy of growth through focused exploration on its two core exploration areas consisting of i) the onshore Alton Block ("Alton") in Nova Scotia and ii) on its 29 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.

## **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 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.

## **EXECUTIVE SUMMARY & OUTLOOK**

### **Overview – Third Quarter 2012**

The Company spent considerable effort during the third quarter in the successful conclusion of its search for a partner for the exploration of its 29 section Montgomery AB, exploration opportunity. Forent enjoyed relatively stable oil and gas production throughout most of the quarter, although the Mervin heavy oil field was shut in in late September. Partly as a result of the Mervin situation, cash flow in the third quarter declined to \$95,950 from the \$238,269 achieved in the second quarter of 2012.

#### *Nova Scotia*

After drilling two exploration wells (Alton #1 and South Branch #1) earlier in the year, the Company incorporated the information into its geological model and has greatly improved its understanding of the subsurface of the Alton Block. The Company believes it has identified the key risks associated with the Gays River reef play and has been able to determine a go forward strategy to explore the geophysical anomalies on the Alton Block. It should be recognized that all of the 10 to 12 geophysical anomalies that have been identified on the Alton Block are distinct exploration opportunities, such that a lack of success at any one does not rule out the potential for success at a different location.

#### *Montgomery, Alberta*

During the second quarter the Company achieved a significant milestone with the signing of a definitive farm-out agreement with BlackShale Resources, Inc. (“BlackShale”), a wholly owned subsidiary of Houston based Kerogen Exploration LLC. BlackShale is a private company that specializes in identifying and exploiting unconventional oil and gas opportunities in Canada. After extensive assessment of regional light oil resource play opportunities in Western Canada, BlackShale chose Forent’s Montgomery lands as one of its initial projects for light oil exploration.

Under the terms of the Agreement, BlackShale has agreed to fund the cost to drill and complete a vertical test well to the base of the Mannville Formation, a depth of approximately 3,100 metres, to earn a 70% interest in all PNG rights to the base of the deepest formation penetrated in four contiguous sections of land, while Forent will retain 30% of its pre-farmout interest in these four sections. Upon drilling the first well and having evaluated all of the formations in the borehole, BlackShale may exercise an option to drill additional vertical or horizontal wells under similar earning conditions.

#### *Mervin, Saskatchewan*

During the third quarter of 2012 production averaged 145 bbls per day or about 5 bbls per day greater than the second quarter of 2012. In mid-September a neighboring operating company initiated a well re-entry program on lands adjacent to Forent’s Mervin oil field. During the re-entry operations on the first well in this program, a deeper formation was inadvertently penetrated containing quantities of water with hydrogen sulfide (“H<sub>2</sub>S”). This H<sub>2</sub>S contaminated water flowed uncontrolled for a number of days into the Waseca formation, from which Forent was previously producing sweet oil, resulting in the Waseca formation becoming contaminated. As a result of H<sub>2</sub>S in the produced water, Forent shut in the Mervin field on September 22<sup>nd</sup> as a safety precaution. Upon taking appropriate operating measures to remove the H<sub>2</sub>S from the produced water, oilfield operations were restarted on October 4<sup>th</sup>. Forent continues to ship most of its production to the US Gulf Coast via rail car and experienced a premium of approximately \$10 per bbl, as compared to the Canadian pipeline price.

### **Financial and operating highlights – Third Quarter 2012**

- the Company continued to generate positive cash flow in the period amounting to \$95,950;
- annual average oil and gas production decreased by 12 percent compared to 2011;
- general and administrative expenses increased 42 percent overall and increased on a per boe basis \$11.82 per boe, primarily due to a significant non-recurring professional fee;
- operating expenses decreased 1 percent to \$30.19 per boe; and,
- operating netbacks for the period increased by 29% to \$14.97 per boe.

### **Outlook for the balance of 2012**

The farm-out agreement with BlackShale Resources Inc. (“BlackShale”) that was announced on August 30, 2012 is moving forward with BlackShale expected to commence drilling of the first well in November. This vertical well will be drilled to the base of the Mannville Formation in order to evaluate all geological zones encountered. In addition to a full suite of well logs, BlackShale intends to take extensive core samples, specifically over the Second White Speck Formation (“2WS”). All technical data will be thoroughly evaluated over several months in order to determine the best completion methodology for the 2WS horizontal well that is expected to be drilled in 2013. Forent will also utilize the well data in order to further evaluate its 23 section, proprietary 3D seismic dataset.

At Mervin SK, the Company is seeing several positive indications such as the return of casing gas, reduced fluid in the six well bores and a modest return in oil production in the range of 20 to 30 bpd. The Company’s cash flow is expected to be materially impacted in the fourth quarter of 2012, until normalized production resumes. Forent is in discussions with the offsetting company in order to restore full production as quickly as possible, address ongoing operational matters and consider appropriate compensation for the impairment of the Company’s Mervin field.

In Nova Scotia, the Company is looking at all alternatives to continue our exploration efforts in Nova Scotia, including bringing in a partner. The next logical step would be a surface geochemical study that can be conducted for approximately \$200,000. It is believed this will measure the differing levels of hydrocarbons encountered in our two exploration wells and will allow high grading of a number of the geophysical anomalies seen on the Alton Block.

## Financial Results

### Production

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
						(%)
<b>Daily Production</b>						
Natural gas (mcf/d)	341	452	(25)	403	491	(18)
Crude oil and NGLs (bbls/d)	152	146	4	147	162	(9)
Boe/d	209	221	(5)	214	244	(12)
				(%)	(%)	(%)
<b>Production Mix</b>						
Natural gas	27	34	(21)	31	34	(9)
Crude oil and NGLs	73	66	11	69	66	5
	100	100		100	100	

The Company's overall production for the third quarter of 2012 averaged 209 boe/d, a decrease of 5% from the 221 boe/d produced during the same period of 2011. Natural gas production decreased in the third quarter of 2012 to 341 mcf/d vs. 452 mcf/d in the third quarter of 2011. The decrease in natural gas production was primarily a result of production rate declines at Forent's Ferrybank and Richdale gas wells. Crude oil and natural gas liquids ("NGLs") production increased to 152 bbls/d during the three months ended September 30, 2012 from 146 bbls/d in the same quarter of 2011. The modest increase in crude oil production rates came from the Mervin heavy oil property in Saskatchewan that was offset by a reduction in production at the Company's Caroline well.

In the nine months ended September 30, 2012, the Company's total production decreased 12% to 214 boe/d from 244 boe/d in the same period of 2011. Natural gas production decreased in the nine months ended September 30, 2012, to 403 mcf/d from 491 mcf/d in the same period of 2011. Crude oil and NGL production decreased to 147 bbls/d during the nine months ended September 30, 2012 from 162 bbls/d in the same period of 2011. The decrease in crude oil production was primarily the result of the sale of the Company's Provost, Alberta oil wells, effective June 1, 2011 (loss of approximately 14 bbls/d of oil) and operational issues at its Lloydminster well.

In mid-September a neighboring operating company initiated a well re-entry program on lands adjacent to Forent's Mervin oil field and salt water disposal well. During the re-entry operations on the first well in its program, a deeper formation was inadvertently penetrated containing large quantities of water with hydrogen sulfide ("H<sub>2</sub>S"). This H<sub>2</sub>S contaminated water flowed uncontrolled for a number of days into the Waseca formation, from which Forent was previously producing sweet oil, resulting in the Waseca formation becoming contaminated. As a consequence of H<sub>2</sub>S in the produced water, Forent shut in the Mervin field on September 22<sup>nd</sup> as a safety precaution. Upon taking appropriate operating measures to remove the H<sub>2</sub>S from the produced water, oilfield operations were restarted on October 4<sup>th</sup>.

The Company's Mervin field had historically produced approximately 4% crude oil (approximately 150 bbls/d) and 96% water, with the water being re-injected through Forent's salt water disposal well. Currently, the fluid production is less than 1% crude oil (approximately 20-30 bbls/d), which is an improvement from 100% water being produced when the field was initially restarted in early October. Management anticipates that as much as several months of continuous fluid production will be required to dewater the field to bring the crude oil production back to its previous level. As a result, Forent's production of crude oil and NGL are expected to be materially lower in the fourth quarter of 2012, until normalized production resumes.

Natural gas production represented 27% and 34% of the Company's total production during the three months ended September 30, 2012 and 2011, respectively. Crude oil and NGL production represented

73% of production in the third quarter of 2012, as compared to 66% in the same period of 2011. The increase in crude oil and NGLs reflects the focus that Forent has placed on development of crude oil and NGLs as opposed 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. During the three months ended September 30, 2012, the AECO natural gas price averaged \$2.28/mcf compared to \$3.65/mcf in the same period of 2011. In the nine months ended September 30, 2012, the AECO natural gas price averaged \$2.12/mcf compared to \$3.65/mcf in the same period of 2011. The lower natural gas prices in 2012 compared to 2011 were primarily a result of strong supply resulting from various new shale gas projects, which led to an abundant supply of natural gas throughout 2011 and into 2012.

#### Crude Oil Prices

Alberta crude oil prices are commonly referenced to Edmonton par crude prices with adjustments (normally discounts) being taken to reflect the quality of the actual produced crude oil. Edmonton par price for the three months ended September 30, 2012 was \$84.79/bbl and \$92.27/bbl in the same quarter of 2011. The average Edmonton par price for the first nine months of 2012 was \$87.29/bbl and \$94.26/bbl in the same period of 2011. 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. During 2012 this light/heavy oil differential decreased from the levels witnessed in 2011; resulting in the Company not experiencing as much of a price decrease as producers of lighter oil. In addition, the sale of a majority of Forent's oil by rail to the U.S. Gulf Coast helped increase crude oil selling prices by about \$10/bbl. WTI based oil prices decreased in the nine month period ended September 30, 2012, compared to the same period of 2011, largely as a result of decreased global political risk that negatively affected prices by decreasing the risk premium to international prices.

#### Pricing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
<b>Selling Prices</b>						
Natural gas (\$/mcf)	<b>2.35</b>	3.70	(36)	<b>2.17</b>	4.05	(46)
Crude oil and NGLs (\$/bbl) <sup>(1)</sup>	<b>67.58</b>	58.94	15	<b>65.65</b>	64.89	1
Average weighted selling price (\$/boe)	<b>53.04</b>	46.42	14	<b>49.14</b>	51.25	(4)

(1) Combined crude oil and NGLs pricing reflects the impact of actual crude quality; in addition prices may be 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 decreased 36% in third quarter of 2012 to \$2.35/mcf from \$3.70/mcf received during the same quarter of 2011. Crude oil and NGLs prices increased 15% during the third quarter of 2012 to \$67.58/bbl as compared to \$58.94/bbl in the same quarter of 2011. The increase in the crude oil and NGL pricing received by the Company was a result of sending the majority of crude oil production by railcar to the U.S. Gulf Coast where higher selling prices are realized as compared to the Edmonton par price.

Selling prices for the nine months ended September 30, 2012 averaged \$2.17/mcf for natural gas and \$65.65/bbl for crude oil and NGLs compared to \$4.05/mcf and \$64.89/bbl, respectively, during 2011. The Company's selling prices of natural gas decreased 46% between the periods, reflecting the oversupply of natural gas in North America. The slight increase in crude oil and NGL selling prices between the periods when the Edmonton par price actually decreased is a result of a portion of the Company's oil production being shipped by railcar and sold in the higher priced U.S. Gulf Coast region.

## Oil and Gas Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
<b>Revenue</b>						
Natural gas sales	<b>73,631</b>	153,984	(52)	<b>239,278</b>	543,020	(56)
Crude oil and NGLs sales	<b>945,677</b>	790,000	20	<b>2,644,067</b>	2,870,104	(8)
Total petroleum sales	<b>1,019,308</b>	943,984	8	<b>2,883,345</b>	3,413,124	(16)
Less: Crown and freehold royalties	<b>(151,348)</b>	(98,189)	54	<b>(501,282)</b>	(486,607)	3
Net oil, NGLs and natural gas sales	<b>867,960</b>	845,795	3	<b>2,382,063</b>	2,926,517	(19)
Other oil and natural gas operating revenues	<b>37,814</b>	60,059	(37)	<b>238,325</b>	145,981	63
Total oil and natural gas revenues	<b>905,774</b>	905,854	-	<b>2,620,388</b>	3,072,498	(15)

The Company's total crude oil and NGLs and natural gas sales for the three months ended September 30, 2012, was \$1,019,308, an increase of 8% from the same period of 2011, when sales totalled \$943,984. Gross natural gas revenues decreased 52%, to \$73,631 in the third quarter of 2012 from \$153,984 in 2011, largely as a result of lower natural gas prices and lower natural gas production. Crude oil and NGL revenues increased 20% between the third quarters of 2012 and 2011, to \$945,677 from \$790,000, as a result of the 15% increase in selling prices and an increase in production from the Mervin field.

During the nine months ended September 30, 2012, the Company's total crude oil and NGLs and natural gas revenues decreased 16% to \$2,883,345 from \$3,413,124 in the same period of 2011. Gross natural gas revenues decreased 56% to \$239,278 in the nine months ended September 30, 2012 from \$543,020 in the same period of 2011, largely as a result of significantly lower natural gas prices and a decrease in production. Crude oil and NGL revenues decreased 8% the nine months ended September 30, 2012 to \$2,644,067 from \$2,870,104 in the same period of 2011, as a result of a 9% decrease in crude oil and NGL volumes, which was offset by the 1% increase in pricing. As a result of the operational issues at the Mervin field that occurred near the end of the third quarter, Forent anticipates that crude oil and NGL revenues will be materially lower in the fourth quarter of 2012, as compared to the third quarter.

Other oil and natural gas operating revenues consist of water disposal and processing revenues from third party charges at facilities that Forent operates. In the third quarter of 2012 the other oil and natural gas operating revenues decreased 37% to \$37,814 from \$60,059 in the same period of 2011. The decrease in other revenues in the quarter was attributable to a processing fee adjustment occurring at Forent's Huxley natural gas processing facility related to prior periods. During the nine months ended September 30, 2012, other oil and natural gas operating revenues increased 63% to \$238,325 from \$145,981 in the same period of 2011. The increase in other revenues between the nine months periods was primarily attributable to the water disposal facility at Mervin that became fully operational in February of 2012. Water disposal revenues steadily increased from the activation in the first quarter of 2011 to the first quarter of 2012 and then saw a significant decrease in the second quarter of 2012. This decrease was the result of Forent's primarily customer disposing of its produced water at its own disposal facility. Forent has been successful at bringing in some new third party volumes in the third quarter of 2012 and continues to aggressively market the facility.

## Royalty Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Total royalties	<b>151,348</b>	98,189	54	<b>501,282</b>	486,607	3
As a % of oil and gas sales	<b>15%</b>	10%	50	<b>17%</b>	14%	21
\$/boe	<b>7.88</b>	4.83	63	<b>8.54</b>	7.31	17

During the three months ended September 30, 2012, the Company's royalty expense increased 54% to \$151,348 from \$98,189 in the same period of 2011. The significant increase in the royalty expense during the third quarter of 2012 compared to 2011 is primarily related to the increase in crude oil volumes and selling prices between the periods and that crown royalties are on a sliding scale driven by those factors. In nine months ended September 30, 2012, the royalty expense increased 3% to \$501,282 from \$486,607 in the same period of 2011.

Royalties as a percentage of sales for the third quarter of 2012 increased to 15% of oil and natural gas sales, which was a 50% increase from 10% in the same period of 2011. During the nine months ended September 30, 2012, royalties as a percentage of sales increased to 17% of oil and natural gas sales, which was a 21% increase from 14% in the same period of 2011. The overall increase in the royalty rates between the periods as a percentage of sales is mainly a result of a higher portion of revenues being derived by crude oil and NGLs that generally have a greater royalty rate, in addition to the claw-back of the Alberta gas cost allowance in the second quarter of 2012. The decrease in natural gas pricing was the driving factor in the reduction of the Alberta gas cost allowance.

## Operating Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Operating expenses	<b>580,102</b>	609,456	(5)	<b>1,268,885</b>	1,848,299	(31)
Operating expenses (\$/boe)	<b>30.19</b>	29.97	1	<b>21.62</b>	27.75	(22)

Operating expenses decreased 5% to \$580,102 in the third quarter of 2012 compared to \$609,456 in same period of 2011. During the nine months ended September 30, 2012, operating costs decreased 31% to \$1,268,885 from \$1,848,299, in the same period of 2011. Operating costs decreased by a greater percentage in the nine months ended September 30, 2012 than they did in the third quarter of 2012 (in both cases relative to 2011), largely due to the fact that Mervin water disposal costs were particularly high in the first half of 2011. Forent completed the tie-in of the Mervin wells into its salt water disposal well early in the first quarter of 2012. The tie-in allowed for significant cost savings to be achieved by eliminating water hauling costs from the associated water produced at Forent's six heavy oil wells at the Mervin field. In addition, the Company sold its two wells at Provost, thereby reducing the costs associated with the 14 boe/d oil production from that property.

On a per boe basis, operating expenses increased 1% to \$30.19 per boe in the third quarter of 2012 from \$29.97 per boe in the third quarter of 2011. During the nine months ended September 30, 2012 operating expenses decreased 22% to \$21.62 per boe from \$27.75 per boe in the same period of 2011. The decrease in boe costs was predominantly the result of reduced water hauling costs at Mervin.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Gross expenses	<b>256,474</b>	186,215	38	<b>902,514</b>	924,782	(2)
Overhead recoveries	<b>(29,400)</b>	(25,928)	13	<b>(82,318)</b>	(79,173)	4
Total G&A expense	<b>227,074</b>	160,287	42	<b>820,196</b>	845,609	(3)
\$/boe	<b>11.82</b>	7.88	50	<b>13.98</b>	12.70	10

During the third quarter of 2012, general and administrative expenses increased 42% to \$227,074 from \$160,287 in the same period of 2011. The significant increase was related to additional non-recurring professional fees incurred in the third quarter of 2012. In the nine months ended September 30, 2012, general and administrative expenses decreased 3% to \$820,196 from \$845,609 in the same period of 2011.

The overhead recoveries from partners, related to Forent operated projects, increased moderately to \$29,400 in the third quarter of 2012, compared to \$25,928 in the same period of 2011. Overhead recoveries from partners are earned at the Huxley area gas wells, plant and gas gathering system that the Company operates, along with any operated capital projects, of which there were none in 2012. The relatively stable amount of overhead recoveries are the result of the Huxley gas property being a coal bed methane gas field with a rather stable cost structure and production base.

### Stock Based Compensation

During the third quarter of 2012, the stock-based compensation expense decreased 24% to \$41,464 from \$54,261 in the third quarter of 2011. The decrease in stock based compensation between the periods was a result of a greater amortization base for stock options in 2011 and that a large portion of options fully vested prior to 2012. The total number of options outstanding as at September 30, 2012 is 10,202,687 with a weighted average exercise price of \$0.24 and life of 3.49 years.

### Operating Netbacks per boe

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$/boe)	(\$/boe)	(%)
Sales price	<b>53.04</b>	46.42	14	<b>49.14</b>	51.25	(4)
Royalties	<b>(7.88)</b>	(4.83)	63	<b>(8.54)</b>	(7.31)	17
Operating	<b>(30.19)</b>	(29.97)	1	<b>(21.62)</b>	(27.75)	(22)
Operating netback	<b>14.97</b>	11.62	29	<b>18.98</b>	16.19	17
G&A (net of non-cash items)	<b>(11.82)</b>	(7.88)	50	<b>(13.98)</b>	(12.70)	10
Interest and other (net of non-cash items)	<b>(0.39)</b>	(0.08)	388	<b>(0.43)</b>	(0.21)	105
Corporate netback (loss)	<b>2.76</b>	3.66	(25)	<b>4.57</b>	3.28	39

During the third quarter of 2012, the Company's operating netback on a per boe basis increased to \$14.97/boe from \$11.62/boe in same period of 2011. The increase in the netback was primarily related to the increase in the oil sales price between the quarters that was partially offset by an increase in royalties, all on a per boe basis. During the nine months ended September 30, 2012, the operating netback improved to \$18.98/boe, a 17% increase from the operating netback of \$16.19/boe in the same period of 2011. The change in the operating netback primarily included a decrease in operating costs at Mervin that were partly offset by a decrease in the sales price for natural gas, which more than offset the slight increase in oil and NGL sales price, all on a per boe basis.

In the three months ended September 30, 2012, the Company's corporate netback decreased to \$2.76/boe from \$3.66/boe in the same period of 2011. The decrease was a result of increased general and administrative costs that was partially offset by the improved operating netback, all on a per boe basis, between the periods. In the nine months ended September 30, 2012, the Company's corporate netback improved to \$4.57/boe from \$3.28/boe in the same period of 2011. The improvement between the nine month periods was primarily a result of the increase in the operating netback that was partially offset by a small increase in general and administrative costs, all on a per boe basis.

In February 2012, the Company eliminated infield water hauling for the Mervin wells through the completion of a pipeline and a water handling facility to transport produced water to its water disposal well. The Company estimates that about \$60,000 per month has been saved as a result of the tie-in, along with generating third party revenues by permitting other companies to dispose of their water at the Forent facility.

#### *Depletion and Depreciation*

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
DD&A provision	<b>400,827</b>	316,416	27	<b>1,223,573</b>	1,119,352	9
Oil and gas asset Impairment	-	6,012	(100)	<b>88,655</b>	81,013	9
Total DD&A and impairment	<b>400,827</b>	322,428	24	<b>1,312,228</b>	1,200,365	9
DD&A provision (\$/boe)	<b>20.86</b>	15.86	32	<b>22.36</b>	18.02	24

The DD&A provision increased by 27% between the third quarters of 2012 and 2011, increasing to \$400,827 from \$316,416, respectively. Depletion is determined by a unit of production rate for each cost generating unit based on reserve levels and the net book value of those cost generating units.

On a per boe basis, the DD&A provision increased 32% to \$20.86/boe from \$15.86/boe between the third quarters of 2012 and 2011, respectively. During the nine months ended September 30, 2012, the DD&A provision increased 24% to \$22.36/boe from \$18.02/boe in the nine months ended September 30, 2011. In 2011 the Company incurred significant write-downs on the reserves of a number of its producing natural gas properties that led to significant depletion and impairments being recorded in the fourth quarter of 2011. In 2012 the significantly lower natural gas reserve base resulted in a greater depletion rate on a per boe basis because production levels were only modestly lower on natural gas compared to the prior period.

The Company evaluates the carrying value of its assets relative to fair value at each balance sheet date. During the nine months ended September 30, 2012, the Company recorded an impairment of \$88,655. The impairments in 2012 reflected the continued trend of decreasing natural gas prices and decreased future expectations of natural gas pricing that significantly reduced the forecasted cash flows of the Company's natural gas properties. The Company's Mervin area, its primarily crude oil property, did not have impairments recorded.

#### *Income Taxes*

During the third quarter of 2012, a future income tax recovery of \$82,315 was realized, as compared to a recovery of \$101,437 in the same quarter of 2011. 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.

As at September 30, 2012, the Company had approximately \$9.3 million in tax pools available to shelter taxable income in future years.

### Funds from Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Cash flow from operating activities	<b>111,210</b>	161,451	(31)	<b>558,683</b>	224,104	149
Decommissioning costs incurred	<b>60,478</b>	2,557	2,265	<b>60,478</b>	2,557	2,265
Change in non-cash working capital	<b>(75,738)</b>	(23,131)	227	<b>(98,835)</b>	156,592	(163)
Funds from operations	<b>95,950</b>	140,877	(32)	<b>520,326</b>	383,253	36

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Funds from operations	<b>95,950</b>	140,877	(32)	<b>520,326</b>	383,253	36
Per share – basic and diluted	-	-	-	-	-	-

Funds from operations decreased to \$95,950 for the three months ended September 30, 2012 compared to \$140,877 in the same period of 2011. The decrease was related to increased non-recurring professional fee expenses between the periods. The increase in funds from operations for the nine months ended September 30, 2012 to \$520,326 from \$383,253 in the same period of 2011, was primarily a result of operating cost savings on water hauling derived from the tie-in of the Company's Mervin wells to its water disposal facility, along with a modest reduction in general and administrative costs in the nine month period of 2012.

### Net earnings

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Net loss	<b>(303,305)</b>	(684,299)	(56)	<b>(2,045,594)</b>	(1,853,529)	10
Per share – basic and diluted	-	(0.01)	(100)	<b>(0.02)</b>	(0.02)	-

In the third quarter of 2012, the Company recorded a net loss of \$303,305 (\$nil per basic and diluted share) versus a net loss of \$684,299 (\$0.01 per basic and diluted share) in the same quarter of 2011. During the nine months ended September 30, 2012 the net loss was \$2,045,594, which was 10% greater than the \$1,853,529 loss in the same period of 2011. The increase in the Company's net loss for the nine month period of 2012 is primarily a result of the exploration and evaluation expense related to the drilling of the South Branch #1 well on the Alton Block, which was partially offset by reduced production expenses and a reduction the deferred tax expense.

### Capital Expenditures

During the nine months ended September 30, 2012, the Company spent \$0.4 million on development and production activities related to the completion of the Mervin water disposal facility, replacing the pumps at a number of its Mervin wells and work-over of its Lloydminster well. The water disposal facility is designed handle all the produced water tied-in by pipelines from the Company's six Mervin wells and also has considerable capacity to accept third-party volumes, thereby allowing Forent to enjoy significant cost savings and a new revenue source. In addition the Company invested \$2.9 million in exploration and evaluation activities on its Alton exploration block. The expenditures involved drilling and casing of the Alton #1 and South Branch #1 locations in its core exploration area of Nova Scotia.

### Working Capital

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
				(\$)	(\$)	(%)
Working capital, beginning of year	17,013	2,207,420	(99)	2,022,555	888,092	128
Funds from operations	95,950	140,877	(32)	520,326	383,253	36
Issue of capital stock (net)	-	-	-	384,634	2,552,769	(85)
Decommissioning costs incurred	(60,478)	(2,557)	2,265	(60,478)	(2,557)	2,265
Capital expenditures (net)	(479,213)	(741,361)	(35)	(3,293,765)	(2,217,178)	49
Working capital, end of period	(426,728)	1,604,379	(127)	(426,728)	1,604,379	(127)

Forent opened 2012 with a working capital surplus of \$2.0 million. The change in the Company's net working capital resulted from funds from operations of \$0.5 million, net equity of \$0.4 million from a share financing, net capital expenditures and abandonments totalling \$3.4 million, thereby leaving the Company with a working capital deficit of \$426,728 at September 30, 2012. For the purposes of the working capital calculation the Company does not include the flow-through share deferred liability, which was \$10,500, as at September 30, 2012. The flow-through share deferred liability is extinguished at the time the Company fulfills its flow-through share commitments and renounces the flow-through expenditures to investors.

The operational issues at Mervin have been a setback for Forent in generating cash flow to support ongoing operations. The Company anticipates that the field will regain its previous production volumes within several months; although it's uncertain when and if the field's production level will recover to its previous level. Forent is in discussions with the offsetting company in order to restore full production as quickly as possible, address ongoing operational matters and consider appropriate compensation for the impairment of the Company's Mervin field. In response to the working capital deficit Forent is attempting to sell a number of its non-core assets during the remainder of 2012.

The Montgomery program is an early stage exploration program for which Forent has identified more than a dozen conventional drilling locations, including multi-zone, three-way structural closures of significant areal extent, as well as, a number of Second White Specs prospects. Forent Energy has partnered with BlackShale Resources to fund the drilling and completion a vertical test well to earn a 70% interest to the base of the deepest formation penetrated in four contiguous sections of land, while Forent will retain 30% of its pre-farmout interest in these four sections. Upon drilling the first well and having evaluated all of the formations in the borehole, BlackShale may exercise a rolling option to drill additional vertical or horizontal wells under similar earning conditions. The Companies are targeting light crude oil in its exploration of the area.

As a result of the tight working capital going into the third quarter, the Company had scaled back its Nova Scotia capital budget until funds are raised or other alternatives identified to support continued exploration and development expenditures.

## Share Capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At September 30, 2012, the Company had 135,515,715 common shares outstanding and no preferred shares outstanding.

## Quarterly Data

The following summarizes key financial and operating information on a quarterly basis for the two most recently completed financial years.

	Three months ended Dec. 31, 2011	Three months ended Mar. 31, 2012	Three months ended Jun. 30, 2012	Three months ended Sep. 30, 2012
	(\$)	(\$)	(\$)	(\$)
Oil and gas revenue, net of royalties	887,191	890,456	824,158	905,774
Funds from (used in) operations <sup>(1)</sup>	(305,467)	186,107	238,269	95,950
Per share – basic and diluted	-	-	-	-
Net loss	(2,886,461)	(1,049,559)	(692,730)	(303,305)
Per share – basic and diluted	(0.03)	(0.01)	(0.01)	-
Capital expenditures	1,283,429	1,547,756	1,266,796	479,213
Total assets	15,083,077	14,997,915	13,667,848	13,557,844
Working capital	2,022,555	1,045,540	17,013	(426,728)
Total non-current financial liabilities	-	-	-	-
Average daily production				
Natural gas (mcf/d)	421	418	451	341
Crude oil and NGLs (bbls/d)	140	137	152	152
Total (boe/d)	210	207	227	209

	Three months ended Dec. 31, 2010	Three months ended Mar. 31, 2011	Three months ended Jun. 30, 2011	Three months ended Sep. 30, 2011
	(\$)	(\$)	(\$)	(\$)
Oil and gas revenue, net of royalties	1,233,596	877,064	1,289,580	905,854
Funds from (used in) operations <sup>(1)</sup>	261,397	(55,005)	297,381	140,877
Per share – basic and diluted	-	-	-	-
Net loss	(453,832)	(1,056,483)	(112,747)	(684,299)
Per share – basic and diluted	-	(0.01)	-	(0.01)
Capital expenditures	2,083,359	696,841	778,976	851,361
Total assets	15,006,270	13,852,012	16,156,956	15,161,949
Working capital	888,092	277,346	2,207,420	1,604,379
Total non-current financial liabilities	-	-	-	-
Average daily production				
Natural gas (mcf/d)	736	559	465	452
Crude oil and NGLs (bbls/d)	211	131	202	146
Total (boe/d)	333	225	280	221

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

(2) As a result of changes in interpretations of the conversion to IFRS prior quarter comparative information has been restated.

### *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, at mutually agreed upon amounts. No provisions for doubtful accounts have been made during the three and nine months ended September 30, 2012 and 2011 in regards to related parties.

During the three and nine months ended September 30, 2012 and 2011, the Company had the following related party transactions.

During the three and nine months ended September 30, 2012, the Company incurred \$69,256 and \$190,605 (September 30, 2011 - \$48,678 and \$201,347), respectively, of operating costs relating to pipeline compressor rental fees, from a company controlled by a board member. As at September 30, 2012, there was an outstanding balance of \$43,318 (December 31, 2011 – \$3,755) owed to the related company. The pipeline and facility rental fees were incurred on facilities that the Company operates with a working interest of approximately 20%. As such, 80% of the gross operating costs, as disclosed above, are directly attributed to the interest of the Company's joint venture partner, being a large and well-funded petroleum producer.

During the three and nine months ended September 30, 2012 the Company incurred \$7,775 and \$24,978 (September 30, 2011 - \$20,931 and \$46,899) for legal services with a law firm of which a board member is a partner. As at September 30, 2012, there was an outstanding balance of \$nil (December 31, 2011 – \$7,951) owed for legal services.

### *Off Balance Sheet Transactions*

Forent was not involved in any off balance sheet transactions during the nine months ended September 30, 2012.

### *Contractual Obligations*

On February 22, 2012, the Company issued flow-through shares requiring that \$84,000 in qualifying exploration expenditures be expended by December 31, 2013. The Company satisfied this commitment through continued geophysical study of the Alton Block during the third quarter of 2012.

On December 29, 2011 and June 1, 2011 the Company issued flow-through shares requiring that \$2,426,026 and \$2,251,000, respectively, in qualifying exploration expenditures be expended by December 31, 2012. As at September 30, 2012 the Company has incurred the full amount of qualifying expenditures to be expended.

The Company is committed to expend a minimum of \$6.3 million on the Alton Block, in Nova Scotia, 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. As at September 30, 2012 the Company has incurred approximately \$4.2 million of the commitment. The Company is continuing to evaluate the results of the two exploration wells it drilled on the Alton Block in Nova Scotia. The results of those wells are being compared to the 2D seismic and gravity differential to develop a greater understanding of the Alton Block's geology. As the next step, the Company intends to conduct a geochemical study.

The Company relinquished its Beech Hill Block exploration agreement on September 19, 2011, which removed the commitment to expend a minimum of \$2,070,000 over a three year period, ending May 1, 2011 and any future commitments. As a result of the Company not continuing its exploration of oil and natural gas within the block the Company forfeited \$59,400 of an \$110,000 deposit that was held by the government of Nova Scotia, with \$50,600 being returned to the Company.

<b>Alton Commitment</b>	
	(\$)
2012	1,350,000
2013	1,800,000
2014	3,150,000
	6,300,000

The Company entered into an office lease effective September 1, 2011. The lease is for a three year term ending August 31, 2014 and requires the following annual payments as at September 30, 2012, which are paid on a monthly basis.

<b>Office lease</b>	
	(\$)
2012	32,246
2013	130,592
2014	89,208
	314,525

### **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 September 30, 2012 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 operation 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 September 30, 2012.

### **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 IFRS. Management has evaluated the Company's internal control over financial reporting at the latest financial year-end of the Company and concluded that the Company's internal 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 IFRS 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.

No material changes in the Corporation's internal controls over financial reporting were identified during the three and nine months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.



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

<sup>3</sup> Member of the Technical Committee

<sup>4</sup> Member of the Compensation Committee

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