FORENT ENERGY

Financial Statements
Years Ended December 31, 2012 and 2011

Management’s Report

The management of Forent Energy Ltd. (“Forent”) is responsible for the presentation and preparation of the accompanying annual financial statements of Forent. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and Canadian generally accepted accounting principles as contained within Part 1 of the Institute of Chartered Accountants Handbook. They include certain amounts that are based on estimates that reflect management’s best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

Management has the overall responsibility for internal controls and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report Forent’s operating and financial results and that Forent’s assets are safeguarded.

The Board of Directors has approved the information contained in the annual financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises the responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management’s responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The audit committee also considers the independence of the external auditors, their fees and, for review by the Board of Directors and approval by the shareholders, their engagement or re-appointment. The external auditors have access to the Audit Committee without the presence of management.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Corporation’s most recent Annual General Meeting, to audit and provide their independent audit opinion on the Corporation’s financial statements as at and for the years ended December 31, 2012 and December 31, 2011. Their report, contained herein, outlines the nature of their audit and expresses their opinion on the financial statements.

Original signed by “Richard Wade”

Richard Wage

President and Chief Executive Officer

Original signed by “Ryan Moody”

Ryan Moody

Manager of Finance

April 24, 2013

pwc

April 24, 2013

Independent Auditor's Report

To the Shareholders of Forent Energy Ltd.

We have audited the accompanying financial statements of Forent Energy Ltd., which comprise the statements of financial position as at December 31, 2012 and December 31, 2011 and the statements of earnings and comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Forent Energy Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

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FORENT ENERGY LTD.
Statements of Financial Position
As at December 31, 2012 and December 31, 2011
(Canadian dollars)

	Note	**December 31, 2012 ($)**	December 31, 2011 ($)
ASSETS			
Current assets			
Cash and cash equivalents		**152,052**	2,498,166
Accounts receivable	4b	**376,423**	1,084,915
Inventory		**-**	37,571
Prepaids and other assets	4b	**60,814**	67,076
Assets of disposal group held for sale	5	**2,001,746**	-
		2,591,035	3,687,728
Non-current assets			
Property, plant and equipment, net	6	**939,685**	4,374,991
Exploration and evaluation assets	7	**8,915,570**	6,750,358
Other long term assets	8	**360,000**	270,000
Total non-current assets		**10,215,255**	11,395,349
Total assets		**12,806,290**	15,083,077
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	4c	**1,322,686**	1,665,173
Deferred liability	9	**10,500**	627,950
Liabilities of disposal group held for sale	5	**476,937**	-
		1,810,123	2,293,123
Non-current liabilities			
Decommissioning and restoration liabilities	10	**565,775**	914,694
Deferred income tax liability	11	**552,894**	-
Total non-current liabilities		**1,118,669**	914,694
Total liabilities		**2,928,792**	3,207,817
SHAREHOLDERS' EQUITY			
Common shares	12a	**20,975,549**	20,637,399
Warrants	12b	**71,284**	793,729
Contributed surplus	12d	**3,081,226**	2,174,068
Accumulated deficit		**(14,250,561)**	(11,729,936)
Total shareholders' equity		**9,877,498**	11,875,260
Total shareholders' equity and liabilities		**12,806,290**	15,083,077
Commitments	17		

The accompanying notes are an integral part of these financial statements.

FORENT ENERGY LTD.
Statements of Earnings and Comprehensive Income (Loss)
For the years ended December 31, 2012 and 2011
(Canadian dollars)

	Note	2012 ($)	2011 ($)
Sales and other operating revenues, net of royalties	14	**479,551**	1,012,958
Exploration and evaluation expenses	7	**1,027,088**	253,443
Production and operating expenses		**538,431**	755,109
Depletion and depreciation	6	**423,575**	1,225,591
Impairment of oil and natural gas assets	6	**314,537**	1,896,329
General and administrative expenses		**1,157,388**	1,256,640
Share based compensation	12c	**232,704**	273,300
		(3,214,172)	(4,647,454)
Other income (expense)			
Financing income		**(3,902)**	6,500
Finance expense	15	**(15,518)**	(28,362)
Loss on disposal of assets		**-**	(302,984)
		(19,420)	(324,846)
Loss before income tax		**(3,233,592)**	(4,972,300)
Deferred income tax recovery	11	**(341,587)**	(190,705)
Loss from continuing operations for the year		**(2,892,005)**	(4,781,595)
Income from discontinued operations for the year	5	**371,380**	41,605
Net loss and comprehensive loss for the year		**(2,520,625)**	(4,739,990)
Loss per share from continuing and discontinued operations, basic and diluted:			
From continuing operations		**($0.02)**	($0.04)
From discontinued operations		**-**	-
Net loss for the year	13	**($0.02)**	($0.04)

The accompanying notes are an integral part of these financial statements.

FORENT ENERGY LTD.
Statements of Changes in Equity
For the years ended December 31, 2012 and December 31, 2011
(Canadian dollars)

	Note	Common Shares ($)	Warrants ($)	Contributed Surplus ($)	Accumulated Deficit ($)	**Total Shareholders' equity** ($)
Balance at January 1, 2012		**20,637,399**	**793,729**	**2,174,068**	**(11,729,936)**	**11,875,260**
Issue of common shares	**12a**	**345,769**	**-**	**-**	**-**	**345,769**
Share issue costs, net of tax	**12a**	**(7,619)**	**-**	**-**	**-**	**(7,619)**
Issue of warrants	**12b**	**-**	**43,731**	**-**	**-**	**43,731**
Expiry of warrants	**12b**	**-**	**(766,176)**	**614,584**	**-**	**(151,592)**
Share based payments	**12d**	**-**	**-**	**292,574**	**-**	**292,574**
Loss for the year		**-**	**-**	**-**	**(2,520,625)**	**(2,520,625)**
Balance at December 31, 2012		**20,975,549**	**71,284**	**3,081,226**	**(14,250,561)**	**9,877,498**
Balance at January 1, 2011		16,118,639	1,436,229	1,455,608	(6,989,946)	12,020,530
Issue of common shares	12a	4,049,076	-	-	-	4,049,076
Share issue costs, net of tax	12a	(347,902)	-	-	-	(347,902)
Exercise of warrants for common shares	12a	817,586	(306,737)	-	-	510,849
Issue of warrants	12b	-	50,587	-	-	50,587
Expiry of warrants	12b	-	(386,350)	386,350	-	-
Share based payments	12c	-	-	332,110	-	332,110
Loss for the year		-	-	-	(4,739,990)	(4,739,990)
Balance at December 31, 2011		20,637,399	793,729	2,174,068	(11,729,936)	11,875,260

The accompanying notes are an integral part of these financial statements.

FORENT ENERGY LTD.
Statements of Cash Flows
For the years ended December 31, 2012 and 2011
(Canadian dollars)

	Year ended December 31, 2012 *($)*	Year ended December 31, 2011 *($)*
Operating activities		
Loss for the year from continuing operations for the year	**(2,892,005)**	(4,781,595)
Adjustments for:		
Depletion and depreciation	**423,575**	1,225,591
Impairment of oil and natural gas assets	**314,537**	1,896,329
Exploration and evaluation expense	**1,027,088**	253,443
Accretion of decommissioning and restoration liabilities	**19,225**	22,560
Stock based compensation	**232,704**	273,300
Deferred income tax recovery	**(341,587)**	(190,705)
Loss on disposal of assets	**-**	302,984
	(1,216,463)	(998,093)
Settlement of decommissioning liabilities	**(60,478)**	(2,557)
Change in non-cash operating working capital	**390,442**	(66,996)
	(886,499)	(1,067,646)
Discontinued operations held for sale	**1,674,302**	1,075,879
	787,803	8,233
Financing activities		
Proceeds from issue of share capital	**356,269**	5,187,876
Proceeds from issue of warrants	**43,731**	50,587
Share issuance costs	**(10,466)**	(483,622)
Change in non-cash financing working capital	**-**	894,578
	389,534	5,649,419
Investing activities		
Development and production additions	**(165,383)**	(119,034)
Proceeds from sale of development and production assets	**-**	750,800
Exploration and evaluation additions	**(2,971,953)**	(2,258,999)
Other assets	**(90,000)**	(85,000)
Change in non-cash investing working capital	**(36,944)**	(54,488)
	(3,264,280)	(1,766,721)
Discontinued operations held for sale	**(259,171)**	(1,983,374)
	(3,523,451)	(3,750,095)
Change in cash and cash equivalents	**(2,346,114)**	1,907,557
Cash and cash equivalents beginning of year	**2,498,166**	590,609
Cash and equivalents end of year	**152,052**	2,498,166

Supplementary cash flow information, notes 5 & 16

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

Forent Energy Ltd. (the "Company" or "Forent") was incorporated pursuant to the provisions of the Alberta *Business Corporations Act* on April 6, 1999, in Canada. The Company is engaged in the exploration, development and production of petroleum and natural gas reserves in western Canada and Nova Scotia and conducts many of its activities jointly with others; these annual financial statements reflect only the Company's proportionate interest in such activities. The Company's corporate office is suite 200, 340 – 12th Avenue SW, Calgary, Alberta.

2. Basis of preparation

(a) Statement of compliance

These annual financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") as set out by the Canadian Institute of Chartered Accountants, which requires publicly accountable enterprises to prepare their financial statements using International Financial Reporting Standards ("IFRS").

The annual financial statements of the Company are based on IFRS's issued as at April 24, 2013, the date the financial statements were authorized by the Board of Directors.

In accordance with IFRS the annual financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of financial statements 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 based on an assessment performed 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.

Exploration and evaluation assets

Exploration and evaluation assets are initially capitalized with the intent to establish commercially viable reserves. Exploration and evaluation assets include undeveloped land, geophysical and geological activities, and costs related to exploratory wells. The Company is required to make estimates and judgments about future events and circumstances regarding the economic viability of extracting the underlying resources. The costs are subject to technical, commercial and management review to confirm the continued intent to develop and extract the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. If an exploration and evaluation project is determined to be unsuccessful, all associated costs are charged to net income. If commercial reserves are established, the relevant costs are transferred from exploration and evaluation to development and production assets that are classified as property, plant, and equipment.

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 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 Company is exposed to is subject to change. As such, income taxes are subject to measurement uncertainty. Management assumes that the Company will use its tax pools to the full extent in future periods and has determined its deferred tax balance on that basis.

3. Significant accounting policies

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

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

(a) Jointly controlled operations and jointly controlled assets

A jointly controlled operation involves the use of assets and other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity. The Company accounts for its proportionate share of jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture. The Company has interests in jointly controlled operations and does not have interests in jointly controlled corporations, partnerships or other entities.

(b) Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents

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

Financial assets at fair value through statement of income

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

Other

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

(ii) *Share capital*

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

(c) Property, plant and equipment

(i) *Pre-exploration costs*

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

(ii) *Exploration and evaluation expenditures*

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

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

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

(iii) *Oil and natural gas interests*

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGU's for impairment testing. The recoverable amounts of CGU's and individual assets have been determined as the higher of either (a) CGU's or the asset's fair value, less costs to sell, or (b) CGU's or the asset's value in use. These calculations require the use of estimates and assumptions and are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves and discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU's.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components) and depleted on a separate basis within a CGU.

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

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

(iv) *Depletion and depreciation*

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

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

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

(d) Impairments

(i) *Financial assets*

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

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

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

All impairment losses are recognized in the statement of income.

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

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

Fair value less costs to sell is generally determined by estimating the discounted after-tax future net cash flows for a CGU. Future net cash flows are forecasted over the expected economic life and then discounted using market-based rates to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

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

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

(e) Share based payments

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

(f) Flow-through shares

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

The proceeds from the issuance are allocated between the offering of shares and the sale of tax benefits when the shares are offered. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the flow through shares. A deferred liability is recognized for this difference. This deferred liability is derecognized when the qualifying tax attributes are renounced to the investor. At the time the renunciation documents are filed with the taxing authorities and the qualifying expenditures have been incurred, a deferred tax liability is recognized for the tax benefits foregone. Any difference between the liability set up for the premium on the flow-through shares and the tax effect on the renounced expenditures is recognized in profit or loss.

(g) Provisions

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

(i) *Decommissioning obligations*

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

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

(h) Revenue

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

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

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

(i) Finance income and expenses

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

Interest income is recognized as it accrues in the statement of income, using the effective interest method.

Gains and losses, reported under finance income and expenses, are reported on a net basis.

(j) Income tax

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

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

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

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

(k) Earnings per share

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

(l) Reportable segment

The Company has only one operating and reportable segment that produces oil and natural gas from substantially west central Alberta.

(m) Recent accounting pronouncements:

The following standards have not been adopted as they apply to future periods that many result in future changes to the Company's accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on the Company's financial results, however these standards are not expected to have a significant impact on the financial statements.

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.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39, see Property, plant and equipment (Note 6). The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

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 and asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures. The adoption of this standard is not expected to have a significant impact on the financial statements.

IAS 27 – Separate Financial Statements

IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*.

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. The standard has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

4. Financial risk management

(a) Overview

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

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

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at December 31, 2012 and 2011 is as follows:

	December 31, 2012	December 31, 2011
	($)	*($)*
Accounts receivable	**376,423**	1,084,915
Deposits and prepaids	**60,814**	67,076
	437,237	1,151,991

Cash and cash equivalents

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

Accounts receivables

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

Virtually all of the Company's accounts receivable are with companies in the petroleum and natural gas industry in Canada and are subject to normal industry credit risks. The Company generally extends unsecured credit to these companies and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable.

The majority of the Company's natural gas, natural gas liquids and crude oil production are marketed through two major oil and gas companies, both of which have investment grade creditworthiness. The Company historically has not experienced any collection issues with its oil and natural gas marketers. The Company does not anticipate any default as it transacts with only creditworthy customers and management does not expect any losses from non-performance by these customers.

Under IFRS the Company is required to provide fair value measurement information as indicated below for financial assets and liabilities as of December 31, 2012 and December 31, 2011. In addition to cash and cash equivalents, the accounts receivables, accounts payable and accrued liabilities are included in the balance sheet at carrying value, which approximates fair value due to the short term nature of those instruments.

The Company's most significant customers are two North American oil and natural gas marketers that account for $91,563 of the trade receivables at December 31, 2012 (December 31, 2011 - $361,967).

As at December 31, 2012, the Company's trade accounts receivables are aged as follows:

Aging of receivables	**0 to 30 days**	**31 to 90 days**	**91 + days**	**Total**
	($)	***($)***	***($)***	***($)***
Sales and accrued revenues	**121,709**	**12,338**	**-**	**134,047**
Joint interest billings with partners	**6,729**	**83,061**	**130,058**	**219,848**
Goods and service tax credit	**22,528**	**-**	**-**	**22,528**
Accounts receivable	**150,966**	**95,399**	**130,058**	**376,423**

As at December 31, 2011, the Company's trade accounts receivables is aged as follows:

Aging of receivables	0 to 30 days	31 to 90 days	91 + days	Total
	($)	*($)*	*($)*	*($)*
Sales and accrued revenues	432,002	43,274	45,959	521,235
Joint interest billings with partners	113,753	113,275	33,408	260,436
Goods and service tax credit	96,990	-	206,254	303,244
Accounts receivable	642,745	156,549	285,621	1,084,915

The substantial amount of accounts receivables relative to the Forent's revenues from continuing operations (see note 14) is the result of the Company operating the Huxley, Alberta property. Forent is the operator of the field holding approximately a 20% average working interest, which results in significant billings each month to its joint venture partners that consist of mid-size and larger oil and gas companies. In addition, the discontinued operations held for sale comprised $108,668 of the sales and accrued revenues as at December 31, 2012 and $398,327 as at December 31, 2011.

(c) Liquidity risk

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

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

The Company had no derivative contracts in place as at the year ended December 31, 2012 and year ended December 31, 2011.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements at December 31, 2012.

	Less than 1 Year	**1 to 3 Years**	**4 to 5 Years**	**There-after**	**Total**
	($)	***($)***	***($)***	***($)***	***($)***
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	**1,322,686**	**-**	**-**	**-**	**1,322,686**
	1,322,686	**-**	**-**	**-**	**1,322,686**

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements at December 31, 2011.

	Less than 1 Year	1 to 3 Years	4 to 5 Years	There-after	Total
	($)	*($)*	*($)*	*($)*	*($)*
Non-derivative financial liabilities:					
Accounts payable and accrued liabilities	1,665,173	-	-	-	1,665,173
	1,665,173	-	-	-	1,665,173

The Company's total accounts payable and accrued liabilities above included $464,551 and $836,954 directly related to the discontinued operations held for sale as at December 31, 2012 and December 31, 2011, respectively.

(d) Market risk

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

Commodity price risk

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

As at December 31, 2012 the Company did not have any commodity risk management contracts in place. Management continuously monitors commodity prices and may initiate instruments to manage exposure to these risks when it deems necessary.

The following table summarizes the sensitivities of the Company's crude oil and natural gas liquids sales and natural gas sales, for continuing operations, to fluctuations in commodity prices while holding all other variables constant. The Company believes that a ten percent change in commodity prices is a reasonable measure of volatility.

	December 31, 2012		December 31, 2011	
	Favourable 10% Change	**Unfavourable 10% Change**	Favourable 10% Change	Unfavourable 10% Change
	($)	***($)***	*($)*	*($)*
Crude oil and NGLs sales	**13,082**	**(13,082)**	38,189	(38,189)
Natural gas sales	**35,040**	**(35,040)**	67,027	(67,027)

Currency risk

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

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

	December 31, 2012		December 31, 2011	
	USD	**CAD**	USD	CAD
	($)	***($)***	*($)*	*($)*
Cash and cash equivalents	**19,228**	**19,318**	19,317	19,646

Foreign exchange fluctuations are not expected to have a material effect on the foreign denominated currency.

Interest rate risk

The Company had no interest bearing financial assets or liabilities as at December 31, 2012 or December 31, 2011.

(e) Capital management

The primary capital management objective of the Company is to ensure adequate working capital is available to sufficiently fund both the board-approved business development plans related to oil and natural gas exploration and development, as well as, ongoing operational working capital requirements, while seeking to minimize the risk-adjusted cost of capital. The Company defines capital as shareholders' equity plus short and long-term debt. The Company's current optimal capital structure is approximately 90% shareholder equity, with no more than 10% debt. Management believes that such a capital structure is suitable in light of its capital management objectives and is commensurate with its western Canadian oil and gas endeavours and the exploration stage of its operations in Nova Scotia.

The Company's capital management plan seeks to ensure adequate resources are available to fund its activities through the next twelve months, on a rolling basis. A significant measure used in assessing capital adequacy is thus the expected number of days of operations that can be funded from current working capital. Capital levels are deemed sufficient if they can fund the following twelve months exploration program and a portion of corporate overhead expenses. In cases where it appears that there will be insufficient capital to fund future development and overhead expenses, additional funds are raised or the capital program and/or overhead expenses adjusted. As of December 31, 2012, Forent had plans in place to provide adequate capital to complete its minimum business development plans for the following twelve month period. This process included the sale of the Mervin property that closed subsequent to year end to ensure adequate funding was available to continue operations. Additional capital raised will be invested in oil and gas exploration and development activities.

Capital spending on exploration and development of oil and natural gas projects will generally be limited to the extent that debt and equity financing is available on acceptable terms. The acceptability of debt and equity financing terms is generally determined by reference to the prevailing market interest rates and market price of the Company's shares. As at December 31, 2012 the Company had no short or long-term debt allowing for some debt capacity under its capital structure. The Company will continue to assess its ongoing capital requirements with reference to its capital structure policy.

There were no changes in the Company's approach to capital management during the year ended December 31, 2012 as compared to the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements.

5. Discontinued operations held for sale - Mervin property

Effective November 16, 2012, the Company reclassified all of its interest in the Mervin, Saskatchewan property as a discontinued business and classified the related assets and liabilities as held for sale. The event that culminated in management's intention to dispose of the property occurred in mid-September when a neighboring operating company conducted a well re-entry program on lands adjacent to Forent's Mervin oil wells and salt water disposal Facility. During the re-entry operation on the first well in this program, a deeper formation was inadvertently penetrated containing significant quantities of water with hydrogen sulfide ("H_2S"). This H_2S 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. This resulted in the field being shut-in over safety concerns and then the field was restarted two weeks later, resulting in a significant reduction in production. After the Mervin field became impaired management was determined to dispose of the asset for a value comparable to the estimated fair market value prior to the issues occurring.

The sale of the field subsequently closed on February 1, 2013, for $5.5 million plus customary adjustments, resulting in a gain of $4,018,867 over the carrying cost of the property.

The crude oil inventory at December 31, 2012, related to the Mervin field was reclassified from inventory and transferred to assets of disposal group held for sale at fair value.

The Mervin oil and gas interests were reclassified from non-current assets consisting of property, plant and equipment, and the carrying amount was reclassified as a current asset titled assets of disposal group held for sale. The sale of the assets was highly probable as at November 16, 2012. At the time of reclassifying the non-current assets to assets of disposal group held for sale, an impairment test that compared the carrying amount of those assets to the fair market value less costs to sell of the property was conducted, with no impairment deemed required.

The carrying amount at the time of reclassification and the amount transferred to discontinued assets held for sale within the statement of financial position are presented below.

	December 31, 2012
	($)
Crude oil inventory	**56,340**
Property, plant and equipment, net	**1,945,406**
Assets of disposal group held for sale	**2,001,746**

The carrying amount for the non-current liabilities associated with the Mervin property that were reclassified as current liabilities of disposal group held for sale in the statement of financial position is presented below.

	December 31, 2012
	($)
Decommissioning and restoration liabilities	**476,937**
Liabilities of disposal group held for sale	**476,937**

The results of the Mervin operations have been reclassified and presented separately as income from discontinued operations on the statement of earnings, with retroactive adjustments. At the time of reclassification the Company ceased any depletion and depreciation of the assets held for sale. The adjustments made to the statement of earnings and comprehensive income related to discontinued operations are presented below.

	December 31, 2012	December 31, 2011
	($)	*($)*
Crude oil and natural gas liquids	**2,758,292**	3,471,112
Royalties	**(236,654)**	(680,804)
Other oil and natural gas operating revenues	**219,459**	156,423
Disposal group oil and natural gas revenue	**2,741,097**	2,946,731
Production and operating expenses	**(1,066,795)**	(1,870,852)
Operating profit from discontinued operations held for sale for the year	**1,674,302**	1,075,879
Depletion and depreciation	**(1,185,136)**	(1,045,015)
Income before tax from discontinued operations held for sale for the year	**489,166**	30,864
Deferred income tax expense (recovery)	**117,786**	(10,741)
Income from discontinued operations for the year	**371,380**	41,605

The cash effects of the discontinued operations on the statement of cash flows are summarized below.

	December 31, 2012	December 31, 2011
	($)	*($)*
Operating	**1,674,302**	1,075,879
Financing	**-**	-
Investing	**(259,171)**	(1,983,374)
	1,415,131	(907,495)

6. Property, plant and equipment

Cost	Oil and natural gas interests	Administrative	Total
	($)	*($)*	*($)*
Balance at December 31, 2010	9,284,151	85,321	9,369,472
Additions from continuing operations	165,677	20,445	186,122
Additions from discontinued operations held for sale	2,195,507	-	2,195,507
Disposals	(1,404,379)	(20,207)	(1,424,586)
Balance at December 31, 2011	**10,240,956**	**85,559**	**10,326,515**
Additions from continuing operations	**168,099**	**1,904**	**170,003**
Additions from discontinued operations held for sale	**263,345**	**-**	**263,345**
Transferred to discontinued assets held for sale	**(4,546,077)**	**-**	**(4,546,077)**
Balance at December 31, 2012	**6,126,323**	**87,463**	**6,213,786**

Accumulated depletion, depreciation and impairment losses	Oil and natural gas interests	Administrative	Total
	($)	*($)*	*($)*
Balance at December 31, 2010	2,093,153	62,238	2,155,391
Depletion and depreciation for the year from continuing operations	1,213,347	12,244	1,225,591
Depletion and depreciation for the year from discontinuing operations held for sale	1,045,015	-	1,045,015
Impairment loss	1,896,329	-	1,896,329
Disposals	(357,792)	(13,010)	(370,802)
Balance at December 31, 2011	**5,890,052**	**61,472**	**5,951,524**
Depletion and depreciation for the year from continuing operations	**412,318**	**11,257**	**423,575**
Depletion and depreciation for the year from discontinuing operations held for sale	**1,185,136**	**-**	**1,185,136**
Impairment loss	**314,537**	**-**	**314,537**
Transferred to discontinued assets held for sale	**(2,600,671)**	**-**	**(2,600,671)**
Balance at December 31, 2012	**5,201,372**	**72,729**	**5,274,101**

Carrying amounts	Oil and natural gas interests	Administrative	Total
	($)	*($)*	*($)*
At December 31, 2010	7,190,998	23,083	7,214,081
At December 31, 2011	4,350,904	24,087	4,374,991
At December 31, 2012	**924,951**	**14,734**	**939,685**

Transferred to disposal group classified as discontinued operations

On November 16, 2012, the Company reclassified its Mervin, Saskatchewan, property as discontinued operations held for sale. This lead to transferring $4,546,077 in original costs less $2,600,671 in related depletion, resulting in net assets of $1,945,406 being presented as assets held for sale. The assets held for sale are classified as a current asset due to the sale of these assets being anticipated to close within one year from December 31, 2012. The sale of the disposal group subsequently closed on February 1, 2013, for $5.5 million plus customary adjustments, resulting in a gain of $4,018,867, over the carrying cost of the property. See note 5.

Depletion, depreciation and impairment charge

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

During the year ended December 31, 2012, $40,146 (December 31, 2011 - $57,678) was capitalized to property, plant and equipment related to wage compensation in the development of oil and natural gas properties, consisting of $20,442 for continuing operations and $19,704 for discontinued operations.

During the year ended December 31, 2012, the Company recognized a net impairment of $314,537 (December 31, 2011 - $1,896,329) on various natural gas wells from continuing operations in non-core areas. The table below summarizes the benchmark prices for the next 10 years used by the independent reserve evaluator in preparing the Company's reserve report.

Year	Alberta AECO-C CAD$/Mcf	Edmonton Par 40 API CAD$/bbl	Natural Gas Liquids (Pentane) CAD$/bbl
2013	3.31	84.55	90.53
2014	3.72	89.84	96.19
2015	3.91	88.21	94.44
2016	4.70	95.43	102.18
2017	5.32	96.87	103.71
2018	5.40	98.32	105.27
2019	5.49	99.79	106.85
2020	5.58	101.29	108.45
2021	5.67	102.81	110.08
2022	5.76	104.35	111.73
	Escalation of 1.5% thereafter		

The following key assumptions were utilized in the calculation of fair value less costs to sell:

	December 31, 2012	December 31, 2011
	($)	*($)*
Discount rate	**10%**	10%
Income tax rate	**25%**	25%

7. Exploration and evaluation assets

	($)
Cost	
Balance, December 31, 2010	4,685,993
Additions	2,317,808
Exploration and evaluation expense	(253,443)
Balance, December 31, 2011	**6,750,358**
Additions	**3,192,300**
Exploration and evaluation expense	**(1,027,088)**
Balance, December 31, 2012	**8,915,570**

Exploration and evaluation (E&E) assets consist of the Company's exploration projects that are pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the year. As at December 31, 2012 an amount of $8,915,570 (December 31, 2011 - $6,750,358) remains in exploration and evaluation assets in respect of the Alton exploration project in Nova Scotia and the exploration project in Montgomery, Alberta.

During the year ended December 31, 2012, the Company incurred an expense of $1,027,088 (December 31, 2011 - $253,443) related to exploration costs not anticipated to be recovered through oil and natural gas reserves incurred from the drilling of the Company's South Branch #1 well in Nova Scotia, on the Alton Block.

Below is a summary of the exploration and evaluation costs capitalized for Forent's two main projects.

	December 31, 2012	December 31, 2011
	($)	*($)*
Carrying amount		
Alton Block, Nova Scotia	**6,112,021**	4,138,946
Montgomery, Alberta property	**2,803,549**	2,611,412
	8,915,570	**6,750,358**

During the year ended December 31, 2012, $542,847 (December 31, 2011 - $539,939), was capitalized to exploration and evaluation assets relating directly to wage compensation and stock based compensation.

8. Other Long-term assets

Other long-term assets consist of deposits held by the Nova Scotia Department of Energy as a work fee deposit related to the exploration of the Alton Block in Nova Scotia. The funds are to be returned upon fulfilling the commitment by spending the required capital expenditures as indicated in note 17b.

9. Deferred liability

Forent recognizes a deferred liability based on the difference between the issue price of the flow-through shares and the deemed market price at the time of the issuance of the flow-through shares. The deferred liability is derecognized as the eligible expenditures are incurred and the flow-through share expenditures are renounced to investors, commencing in the first quarter of the year subsequent to the year of the flow-through shares issuance.

10. Decommissioning and restoration liabilities

The Company's decommissioning and restoration liabilities result from its ownership interest in oil and natural gas assets including well sites and facilities. The total obligations are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the total undiscounted amount of the decommissioning and restoration liabilities to be $1,200,665 as at December 31, 2012 (December 31, 2011 - $1,273,380). These payments are expected to be made over the next 25 years with the majority of costs to be incurred between 2020 and 2025. The present value of the decommissioning and restoration liabilities was calculated using a risk free rate of 1.8% (December 31, 2011 – 2.2%) and an inflation rate of 2.1% (December 31, 2011 – 1.9%).

Changes to decommissioning and restoration liabilities during the periods were as follows:

	December 31, 2012	December 31, 2011
	($)	*($)*
Balance, at beginning of year	**914,694**	615,471
Liabilities incurred	**160,511**	221,055
Liabilities settled and disposed	**(60,478)**	(2,557)
Relating to discontinued operations transferred to current liabilities	**(476,937)**	-
Revisions to estimates	**8,760**	58,165
Financing (accretion) expense	**19,225**	22,560
Balance, at end of year	**565,775**	914,694

The following shows the sensitivities to a 1% rate change in the key assumptions of discount rate and inflation rate in determining the decommissioning and restoration liabilities, holding all other factors constant.

	December 31, 2012		December 31, 2011	
	Increase of 1%	**Decrease of 1%**	Increase of 1%	Decrease of 1%
	($)	***($)***	*($)*	*($)*
Discount rate	**38,507**	**(44,530)**	78,222	(88,230)
Inflation rate	**(59,050)**	**50,531**	(103,657)	91,111

11. Deferred taxes

The provision for income taxes differs from the amount obtained by applying the combined federal and provincial income tax rate to the loss before income taxes in relation to the following items.

	December 31, 2012	December 31, 2011
	($)	*($)*
Loss before income taxes – continuing operations	**(3,233,592)**	(4,972,300)
Loss before income taxes – discontinued operations, note 5	**489,166**	30,864
Loss before income taxes	**(2,744,426)**	(4,941,436)
Expected income tax reduction at the Company's statutory rate of 25.83% (2011 - 27.25%)	**(708,855)**	(1,346,617)
Tax effect of non-deductible and non-taxable amounts related to:		
Non-deductible expenses	**1,284**	4,289
Stock based compensation	**60,105**	74,478
Effect of tax rate changes and temporary differences recorded at future rates	**(27,761)**	102,202
Reconciliation from assessed taxes	**-**	-
Flow-through share expense	**600,145**	819,200
Unrecognized tax benefits	**(138,258)**	138,258
Other	**(10,461)**	6,744
Deferred income tax recovery	**(223,801)**	(201,446)
Effective tax rate	**8.2%**	4.1%

Composition of deferred income recovery		
Deferred income tax expense (recovery) from continuing operations	**(341,587)**	(190,705)
Deferred income tax expense (recovery) from discontinued operations	**117,786**	(10,741)
Deferred income tax recovery	**(223,801)**	(201,446)

The statutory tax rate decreased to 25.83% in 2012 from 27.25% in 2011 as a result of a staged phase-in period stemming from tax legislation enacted in 2007 and a change in the ratio of the Company's comingled tax rate between Alberta and Saskatchewan in the periods.

As at December 31, 2012, the Company had approximately $8.9 million in tax pools available to shelter taxable income in future years, although subsequent to year end the disposition of discontinued assets held for sale and the renouncement of flow-through expenditures reduced the tax pools by approximately $5.6 million to $3.3 million. The non-capital losses carried forward will begin to expire in 2026.

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

	December 31, 2012	December 31, 2011
	($)	*($)*
Deferred income tax liabilities		
Deferred tax liabilities to be settled within 12 months	**-**	**-**
Deferred tax liabilities to be settled after more than 12 months	**(2,186,843)**	(1,553,869)
	(2,186,843)	(1,553,869)
Deferred income tax assets		
Deferred tax assets to be settled within 12 months	**293,695**	291,602
Deferred tax assets to be settled after more than 12 months	**1,340,254**	1,262,267
	1,633,949	1,553,869
Net deferred income tax liability	**(552,894)**	-

The deferred income tax liabilities and assets to be settled (recovered) within 12 months represents Management's estimate of the timing of the reversal of temporary differences and does not relate to the current income tax expense (if any) in the subsequent year.

The movement in deferred income tax liabilities and assets is as follows:

Deferred income tax liabilities	**Property, plant and equipment**
	($)
Balance, December 31, 2010	1,593,960
Charged (credited) to earnings	(40,091)
Balance, December 31, 2011	**1,553,869**
Charged (credited) to earnings	**632,974**
Balance, December 31, 2012	**2,186,843**

Deferred income tax assets	**Decommissioning and Restoration Liabilities**	**Tax Losses**	**Other**	**Total**
	($)	***($)***	***($)***	***($)***
Balance, December 31, 2010	(171,101)	(1,030,359)	(166,446)	(1,367,906)
Charged (credited) to earnings	(88,672)	(72,607)	-	(161,279)
Credited to share capital	-	-	(24,684)	(24,684)
Balance, December 31, 2011	**(259,773)**	**(1,102,966)**	**(191,130)**	**(1,553,869)**
Charged (credited) to earnings	**(19,674)**	**(138,952)**	**(698,149)**	**(856,775)**
Credited to share capital	**-**	**-**	**776,695**	**776,695**
Balance, December 31, 2012	**(279,447)**	**(1,241,918)**	**(112,584)**	**(1,633,949)**

Net deferred income tax liabilities	**Total**
	($)
Balance, December 31, 2010	226,054
Charged (credited) to earnings	(201,370)
Credited to share capital	(24,684)
Balance, December 31, 2011	-
Charged (credited) to earnings	**(223,801)**
Credited to share capital	**776,695**
Net deferred income tax liabilities as at December 31, 2012	**552,894**

12. Share capital

The Company has authorized an unlimited number of common and preferred shares with no par value. At December 31, 2012, the Company had 135,515,715 common shares outstanding (December 31, 2011 – 132,559,946) and no preferred shares outstanding (December 31, 2011 – nil).

(a) Common shares

	December 31, 2012		December 31, 2011	
	Shares	**Amount**	Shares	Amount
	(#)	***($)***	*(#)*	*($)*
Common shares				
Balance, beginning of year	**132,559,946**	**20,637,399**	102,847,022	16,118,639
Issued pursuant to private placements	**2,955,769**	**345,769**	26,707,925	4,049,076
Share issue costs, net	**-**	**(7,619)**	-	(347,902)
Issued pursuant to warrants exercised	**-**	**-**	3,004,999	817,586
Balance, end of year	**135,515,715**	**20,975,549**	132,559,946	20,637,399

* *See subsequent event note 21 for information regarding the $1.5 million non-brokered private placement that closed on February 20, 2013.*

On February 22, 2012 the Company completed a non-brokered private placement for gross proceeds of $400,000. The private placement consisted of the issuance of 525,000 flow-through common shares at a price of $0.16 per share and 2,430,769 units of the Company at a price of $0.13 per unit, with each unit consisting of one common share and one half common share purchase warrant, each whole warrant being exercisable for one common share of the Company at a price of $0.20 per share until August 22, 2013. The flow-through shares were valued at $84,000, less a current liability of $10,500 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors, netting to $73,500. The units were valued at $316,000, with $272,269 related to the common shares and $43,731 attributed to the share purchase warrants. Cash fees associated with the private placement consisted of $10,466 in regulatory and legal expenses. In addition, the deferred income tax benefit associated with the share issue costs was $2,847, resulting in net share issuance costs of $7,619.

On December 29, 2011 the Company completed a brokered private placement for gross proceeds of $2,426,026. The brokered private placement consisted of the issuance of 17,328,758 flow-through common shares at a price of $0.14 per share. The flow-through shares were valued at

$2,079,451, being the deemed flow-through share valuation. A current liability of $346,575 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors was recorded at the time of issue. Cash fees associated with the private placement consisted of $94,165 in regulatory and legal expenses and commissions and brokers fees of $129,789. Broker warrants totalling 927,063 that expired on December 29, 2013 and were exercisable at $0.20 were issued pursuant to the brokered placement. The Company valued the broker warrants using the Black-Scholes method resulting in a fair value of $27,553. In addition a deferred income tax benefit associated with the share issue costs was $69,567, resulting in net share issuance costs of $181,940.

On June 1, 2011 the Company completed a brokered private placement for gross proceeds of $2,251,000. The private placement consisted of the issuance of 9,379,167 flow-through common shares at a price of $0.24 per share. The flow-through shares were valued at $1,969,625, being the deemed flow-through share valuation. A current liability of $281,375 related to the tax benefit of eligible capital expenditures that the Company is committed to renounce to investors was recorded at the time of issue. Cash fees associated with the private placement consisted of $63,336 in regulatory and legal expenses and commissions and brokers fees of $145,744. Broker warrants totalling 488,833 that expired on June 1, 2012 and were exercisable at $0.24 were issued pursuant to the brokered placement. The Company valued the broker warrants using the Black-Scholes method resulting in a fair value of $23,034. In addition a deferred income tax benefit associated with the share issue costs was $66,152, resulting in net share issuance costs of $165,962.

(b) Share Purchase Warrants

		December 31, 2012			December 31, 2011	
	Warrants	**Amount**	**Weighted Average Exercise Price**	Warrants	Amount	Weighted Average Exercise Price
	(#)	***($)***	***($)***	*(#)*	*($)*	*($)*
Warrants						
Warrants, beginning of year	**9,224,204**	**793,729**	**0.26**	15,505,755	1,436,229	0.23
Issue of warrants	**1,215,385**	**43,731**	**0.20**	1,415,896	50,587	0.24
Exercise of warrants	**-**	**-**	**-**	(3,005,000)	(306,737)	0.17
Expiry of warrants	**(8,297,140)**	**(766,176)**	**0.26**	(4,692,447)	(386,350)	0.22
Warrants, end of year	**2,142,449**	**71,284**	**0.20**	9,224,204	793,729	0.26

Pursuant to the February 22, 2012 private placement, the Company issued 1,215,385 share purchase warrants of the Company each exercisable into one common share of the Company at a price of $0.20 per share until August 22, 2013. The 1,215,385 warrants were fair valued at $43,731. The fair market value of the warrants issued on February 22, 2012 and the assumptions used in their determination using the Black-Scholes option pricing model at the time of issuance was as follows:

Risk free rate	**1.10%**
Expected life	**0.8 years**
Expected volatility	**90%**
Expected forfeiture rate	**-**
Expected dividends	**-**

Pursuant to the December 29, 2011 brokered private placement the Company issued 927,063 share purchase warrants of the Company exercisable for one common share of the Company at a price of $0.20 per share until December 29, 2012. The 927,063 warrants were fair valued at $27,553.

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

The Company calculated the fair value of the warrants issued on June 1, 2011, using the Black-Scholes option pricing model at the time of issuance. The fair value of the warrants and the assumptions used in the valuation were as follows: dividend rate 0%; expected volatility: 90 - 114%; risk-free interest rate: 1.45% - 1.29%; and expected life: 1.0 - 2.0 years, respectively.

(c) Share based payments

The Company maintains an employee stock option plan under which the Board of Directors, or a committee appointed for such a purpose, may from time to time grant to employees, officers, directors and consultants of the Company, options to acquire common shares in such numbers, for such terms, and at such exercise prices, as may be determined by the Board of Directors or a committee of the board.

The stock option plan provides that the maximum number of common shares in the capital of the Company that may be reserved for issuance for all purposes under the stock option plan is equal to 10% of the Company's outstanding common shares. The maximum number of common shares which may be reserved for issuance to any one optionee pursuant to share options may not exceed 5% of the common shares outstanding at the time of grant.

As at December 31, 2012 and December 31, 2011, the following stock options were outstanding:

	December 31, 2012		December 31, 2011	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
	(#)	***($)***	*(#)*	*($)*
Beginning of year	**7,142,687**	**0.25**	5,704,490	0.43
Granted	**5,550,000**	**0.16**	3,610,000	0.24
Cancelled	**(30,185)**	**0.27**	(232,454)	0.46
Expired	**-**	**-**	(50,000)	0.54
Granted pursuant to re-pricing	**-**	**-**	1,889,355	0.25
Cancelled pursuant to re-pricing	**-**	**-**	(3,778,704)	0.49
End of year	**12,662,502**	**0.21**	7,142,687	0.25

As at December 31, 2012, 7,687,505 options were vested and exercisable between $0.10 and $0.54 per share with a weighted average exercise price of $0.23 per share (2011 – $0.26 per share).

On November 23, 2012, the Company granted stock options to acquire 2,490,000 common shares of Forent to certain directors, officers, employees and consultants of the Company. Each of the options is exercisable for a five year term expiring on November 23, 2017 and exercisable until that time at a price of $0.20 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date. The Company determined a fair value of $93,055 for the stock options granted. The options were subject to a four month hold period that expired on February 23, 2013.

On January 20, 2012, the Company granted stock options to acquire 3,060,000 common shares of Forent to certain directors, officers, employees and consultants of the Company. Each of the options is exercisable for a five year term expiring on January 20, 2017 and exercisable until that time at a price of $0.20 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date. The Company determined a fair value of $192,483 for the stock options granted. The options were subject to a four month hold period that expired on May 20, 2012.

The Company determined a fair value of the January 20 and November 23, 2012 stock options granted, using the Black-Scholes option pricing model as at the date of grant. The assumptions used in the determination of the stock options fair market value issued in 2012 were as follows:

	2012
Risk free rate	**1.19% to 1.24%**
Expected life	**3.4 to 3.6 years**
Expected volatility	**90% to 118%**
Expected forfeiture rate	**6.79% to 5.3%**
Expected dividends	**-**

On December 9, 2011, the Company granted stock options to acquire up to an aggregate of 250,000 common shares of Forent to a director of the Company. Each of the options is exercisable for a five year term expiring on December 9, 2016 and exercisable until that time at a price of $0.20 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date.

On December 1, 2011, the Company granted stock options to acquire up to an aggregate of 350,000 common shares of Forent to a director and consultant of the Company. Each of the options is exercisable for a five year term expiring on December 1, 2016 and exercisable until that time at a price of $0.20 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date.

On April 20, 2011, the Company granted stock options to acquire up to an aggregate of 250,000 common shares of Forent to an officer of the Company. Each of the options is exercisable for a five year term expiring on April 20, 2016 and exercisable until that time at a price of $0.25 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date.

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

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

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

The assumptions used in the determination of fair market value of the stock options issued in 2011 were as follows:

	2011
Risk free rate	0.98% to 1.32%
Expected life	2.6 to 4.6 years
Expected volatility	90%
Expected forfeiture rate	6.93%
Expected dividends	-

(d) Contributed Surplus

	December 31, 2012	December 31, 2011
	($)	*($)*
Contributed surplus, beginning of year	**2,174,068**	1,455,608
Stock-based compensation expense	**232,704**	273,300
Stock-based compensation capitalized	**59,870**	58,810
Expiry of warrants	**614,584**	386,350
Contributed surplus, end of year	**3,081,226**	2,174,068

13. Earnings per share

	December 31, 2012	December 31, 2011
Weighted average common shares outstanding, basic	**135,087,694**	110,701,227
Effect of stock options	**-**	-
Effect of warrants	**-**	-
Weighted average common shares outstanding, diluted	**135,087,694**	110,701,227
Earnings (loss) per share from continuing and discontinued operations, basic and diluted:		
From continuing operations	**(0.02)**	(0.04)
From discontinued operations	**-**	-
Loss from earnings for the year	**(0.02)**	(0.04)

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

As at December 31, 2012, there are 14,804,951 share options and warrants (December 31, 2011 – 16,366,891) that are considered to be anti-dilutive and have been excluded from the diluted per share calculation.

14. Oil and natural gas revenue

Revenues from oil and natural gas activities presented below reflect revenues from continuing operations for the years ended December 31, 2012 and 2011.

	December 31, 2012	December 31, 2011
	($)	*($)*
Crude oil and natural gas liquids	**130,817**	381,889
Natural gas	**350,396**	558,457
Oil and natural gas sales	**481,213**	940,346
Less: royalties	**(72,200)**	(4,925)
Other oil and natural gas operating revenues	**70,538**	77,537
Sales and other operating revenues, net of royalties	**479,551**	1,012,958

See note 5 for disclosure of net revenues related to discontinued operations held for sale that have been excluded from the continuing operations summary above.

15. Finance expense

	December 31, 2012	December 31, 2011
	($)	*($)*
Interest and bank charges	**(3,707)**	5,802
Accretion on decommissioning liabilities	**19,225**	22,560
Total finance expense	**15,518**	28,362

16. Supplemental cash flow disclosures

The following table details the components of cash and cash equivalents:

	December 31, 2012	December 31, 2011
	($)	*($)*
Cash	**152,052**	2,498,166
Short-term investments	**-**	-
Cash and cash equivalents	**152,052**	2,498,166

The following table details the components of non-cash working capital:

	December 31, 2012	December 31, 2011
	($)	*($)*
Provided by (used in)		
Accounts receivable and other assets	**695,985**	1,237,784
Accounts payable and accrued liabilities	**(342,487)**	(1,088,854)
	353,498	148,930
Operating	**390,442**	(66,996)
Financing	**-**	894,578
Investing	**(36,944)**	(54,488)
	353,498	773,094

17. Commitments

(a) Flow-through share 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 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 December 31, 2012 the Company has incurred the full amount of qualifying expenditures to be expended.

(b) Alton Block commitment

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

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

As at December 31, 2012, the Company has expended approximately $4.4 million of the commitment, with $1.9 million remaining.

(c) Office lease

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 specified payments as at December 31, 2012, which are paid on a monthly basis.

	($)
2013	130,592
2014	89,208
	219,800

18. Wages and employee benefits

Wages and employee benefits are expensed to general and administrative expenses, operating expenses or capitalized to exploration and evaluation costs, depending on the nature of the labour provided by the employee. The following summary includes wages from both continuing and discontinued operations.

	2012	2011
	($)	*($)*
General and administrative expense - wages	**497,299**	516,383
General and administrative expense - benefits	**21,989**	23,303
Operating expense - wages	**60,410**	38,197
Capitalized wages	**558,429**	518,051
Capitalized wage benefits	**20,061**	20,757
	1,158,188	1,116,691

19. 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 twelve months ended December 31, 2012 and 2011 in regards to related parties.

During the three and twelve months ended December 31, 2012 and 2011, the Company had the following related party transactions.

During the three and twelve months ended December 31, 2012, the Company incurred $36,402 and $218,007 (December 31, 2011 - $39,277 and $240,624), respectively, of operating costs relating to pipeline compressor rental fees, from a company controlled by a board member. As at December 31, 2012, there was an outstanding balance of $40,407 (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 twelve months ended December 31, 2012 the Company incurred $10,981 and $35,959 (December 31, 2011 - $39,573 and $86,472) for legal services with a law firm of which a board member is a partner. As at December 31, 2012, there was an outstanding balance of $11,965 (December 31, 2011 – $7,951) owed for legal services.

Compensation for key management

Key management includes the company's directors and executives. During the years ended December 31, 2012 and 2011 the compensation awarded to key management included the following:

	2012	2011
	($)	*($)*
Salaries and employee benefits	**421,840**	**413,097**
Share based payments	**189,553**	**224,893**
	611,393	**637,990**

20. Comparative figures

Certain amounts of comparative figures have been reclassified to conform to the presentation adopted in the current year.

21. Subsequent events

Sale of discontinued operations – Mervin Property

On February 1, 2013, the Company closed the sale of all its interests in its Mervin, Saskatchewan property for $5.5 million, resulting in a gain of $4,018,867 over the carrying cost of the property. The property was classified as a discontinued disposal group held for sale as at December 31, 2012. The disposition of the property allowed Forent to realize a value that was comparable to the fair market value prior to the contamination occurrence and in excess of the independently assigned proved plus probable value from December 31, 2011.

Issuance of equity

On February 20, 2013 the Company completed a non-brokered private placement for gross proceeds of $1,500,000, less approximately $20,000 in legal and regulatory fees. Pursuant to the private placement, 30,000,000 common shares at a price of $0.05 per share were issued. The shares have a four month hold period.

After the close of the Mervin property sale and the issuance of equity, working capital was approximately $5.5 million primarily consisting of cash as at February 20, 2013.

Issuance of stock based compensation

On March 8, 2013, the Company granted stock options to acquire up to an aggregate of 1,000,000 common shares of Forent to certain officers and employees of the Company. Each of the options is exercisable for a five year term expiring on March 8, 2018 and exercisable until that time at a price of $0.10 per common share. One-third of the options vested immediately upon the date of grant with an additional one-third to vest on each of the first and second anniversaries of the grant date. The options are subject to a four month hold period that expires on June 9, 2013.

The Company determined a fair value of approximately $26,500 for the stock options granted, using the Black-Scholes option pricing model as at the date of grant. The weighted average fair market value of the stock options and the assumptions used in their determination for options issued on March 8, 2013 were as follows: dividend rate: 0%; expected volatility: 92%; risk-free interest rate: 1.14%; forfeiture rate: 4.81%; and expected life: 3.0 years.

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Scott Reeves[4]
Wayne Rousch[1, 3, 4]

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[2] *Chairman of the Board*
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