

FOREST OIL CORP
Form 10-Q
May 05, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2010

Or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
Commission File Number 1-13515**

FOREST OIL CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

25-0484900
(I.R.S. Employer
Identification No.)

707 17th Street, Suite 3600 Denver, Colorado 80202
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(303) 812-1400**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2010 there were 112,447,491 shares of the registrant's common stock, par value \$.10 per share, outstanding.

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March 31, 2010**

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Data)

| | March 31, 2010 | December 31, 2009 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 213,778 | 467,221 |
| Accounts receivable | 132,790 | 126,354 |
| Derivative instruments | 117,790 | 35,643 |
| Deferred income taxes | | 7,108 |
| Inventory | 52,390 | 52,211 |
| Other current assets | 44,782 | 41,455 |
| Total current assets | 561,530 | 729,992 |
| Property and equipment, at cost: | | |
| Oil and gas properties, full cost method of accounting: | | |
| Proved, net of accumulated depletion of \$7,596,330 and \$7,511,661 | 1,491,776 | 1,316,712 |
| Unproved | 886,219 | 828,645 |
| Net oil and gas properties | 2,377,995 | 2,145,357 |
| Other property and equipment, net of accumulated depreciation and amortization of \$58,960 and \$54,810 | 111,538 | 113,850 |
| Net property and equipment | 2,489,533 | 2,259,207 |
| Deferred income taxes | 372,058 | 393,061 |
| Goodwill | 256,478 | 255,908 |
| Derivative instruments | | 556 |
| Other assets | 44,497 | 45,966 |
| | \$ 3,724,096 | 3,684,690 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|------------|---------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 322,796 | 284,302 |
| Accrued interest | 34,776 | 25,755 |
| Derivative instruments | 35,112 | 41,358 |
| Deferred income taxes | 26,753 | |
| Current portion of long-term debt | | 156,678 |
| Asset retirement obligations | 3,006 | 4,853 |
| Other current liabilities | 18,841 | 22,074 |

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| | | |
|---|---------------------|------------------|
| Total current liabilities | 441,284 | 535,020 |
| Long-term debt | 1,866,727 | 1,865,836 |
| Asset retirement obligations | 82,247 | 88,450 |
| Derivative instruments | 5,454 | 826 |
| Deferred income taxes | 52,626 | 46,884 |
| Other liabilities | 68,055 | 68,520 |
| Total liabilities | 2,516,393 | 2,605,536 |
| Shareholders' equity: | | |
| Preferred stock, none issued and outstanding | | |
| Common stock, 112,468,080 and 112,337,315 shares issued and outstanding | 11,247 | 11,234 |
| Capital surplus | 2,662,526 | 2,652,689 |
| Accumulated deficit | (1,543,264) | (1,652,426) |
| Accumulated other comprehensive income | 77,194 | 67,657 |
| Total shareholders' equity | 1,207,703 | 1,079,154 |
| | \$ 3,724,096 | 3,684,690 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Per Share Amounts)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------------|
| | 2010 | 2009 |
| Revenues: | | |
| Oil and gas sales | \$ 221,729 | 194,659 |
| Interest and other | 136 | 209 |
| Total revenues | 221,865 | 194,868 |
| Costs, expenses, and other: | | |
| Lease operating expenses | 29,102 | 41,231 |
| Production and property taxes | 11,428 | 11,695 |
| Transportation and processing costs | 4,859 | 5,244 |
| General and administrative | 18,753 | 16,085 |
| Depreciation, depletion, and amortization | 52,312 | 104,552 |
| Accretion of asset retirement obligations | 1,839 | 2,038 |
| Ceiling test write-down of oil and gas properties | | 1,575,843 |
| Interest expense | 38,043 | 36,545 |
| Realized and unrealized gains on derivative instruments, net | (93,211) | (139,328) |
| Other, net | (9,833) | 9,083 |
| Total costs, expenses, and other | 53,292 | 1,662,988 |
| Earnings (loss) before income taxes | 168,573 | (1,468,120) |
| Income tax: | | |
| Current | 717 | 1,268 |
| Deferred | 58,694 | (291,615) |
| Total income tax | 59,411 | (290,347) |
| Net earnings (loss) | \$ 109,162 | (1,177,773) |
| Basic earnings (loss) per common share | \$.97 | (12.32) |
| Diluted earnings (loss) per common share | \$.97 | (12.32) |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

(In Thousands)

| | Common Stock | | Capital Surplus | Accumulated Deficit | Accumulated Other | Total Shareholders' Equity |
|---|--------------|-----------|--------------------|------------------------|----------------------|----------------------------------|
| | Shares | Amount | | | Income | |
| Balances at December 31, 2009 | 112,337 | \$ 11,234 | 2,652,689 | (1,652,426) | 67,657 | 1,079,154 |
| Exercise of stock options | 114 | 11 | 2,159 | | | 2,170 |
| Employee stock purchase plan | 20 | 2 | 389 | | | 391 |
| Amortization of stock-based compensation | | | 7,181 | | | 7,181 |
| Other, net | (3) | | 108 | | | 108 |
| Comprehensive earnings: | | | | | | |
| Net earnings | | | | 109,162 | | 109,162 |
| Unfunded postretirement benefits, net of tax | | | | | 395 | 395 |
| Foreign currency translation | | | | | 9,142 | 9,142 |
| Total comprehensive earnings | | | | | | 118,699 |
| Balances at March 31, 2010 | 112,468 | \$ 11,247 | 2,662,526 | (1,543,264) | 77,194 | 1,207,703 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2010 | 2009 |
| Operating activities: | | |
| Net earnings (loss) | \$ 109,162 | (1,177,773) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation, depletion, and amortization | 52,312 | 104,552 |
| Ceiling test write-down of oil and gas properties | | 1,575,843 |
| Deferred income tax | 58,694 | (291,615) |
| Unrealized gains on derivative instruments, net | (83,242) | (67,539) |
| Unrealized foreign currency exchange (gains) losses, net | (6,650) | 3,539 |
| Unrealized losses on other investments, net | | 2,327 |
| Stock-based compensation expense | 4,654 | 3,947 |
| Accretion of asset retirement obligations | 1,839 | 2,038 |
| Other, net | (3,482) | 1,187 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,055) | 43,280 |
| Other current assets | (2,874) | 10,136 |
| Accounts payable and accrued liabilities | (66,493) | (89,982) |
| Accrued interest and other current liabilities | 6,813 | 28,426 |
| Net cash provided by operating activities | 65,678 | 148,366 |
| Investing activities: | | |
| Capital expenditures for property and equipment: | | |
| Exploration and development costs | (191,754) | (301,329) |
| Other fixed assets | (1,584) | (21,840) |
| Proceeds from sales of assets | 10,766 | 6,292 |
| Net cash used by investing activities | (182,572) | (316,877) |
| Financing activities: | | |
| Proceeds from bank borrowings | 7,875 | 430,856 |
| Repayments of bank borrowings | (7,875) | (799,484) |
| Redemption of 7 ³ / ₄ % senior notes | (151,938) | |
| Issuance of 8 ¹ / ₂ % senior notes, net of issuance costs | | 559,767 |
| Proceeds from the exercise of options and from employee stock purchase plan | 2,561 | 458 |
| Change in bank overdrafts | 13,003 | (21,752) |
| Other, net | (137) | (2,663) |
| Net cash (used) provided by financing activities | (136,511) | 167,182 |
| Effect of exchange rate changes on cash | (38) | (20) |
| Net decrease in cash and cash equivalents | (253,443) | (1,349) |
| Cash and cash equivalents at beginning of period | 467,221 | 2,205 |
| Cash and cash equivalents at end of period | \$ 213,778 | 856 |

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Cash paid during the period for:

| | | | |
|--------------|----|--------|-------|
| Interest | \$ | 29,218 | 6,100 |
| Income taxes | | 64,048 | 1,930 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest Oil Corporation and its consolidated subsidiaries (collectively, "Forest" or the "Company"). In the opinion of management, all adjustments, consisting of normal recurring accruals, have been made which are necessary for a fair presentation of the financial position of Forest at March 31, 2010, the results of its operations for the three months ended March 31, 2010 and 2009, and its cash flows for the three months ended March 31, 2010 and 2009. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in prices received for liquids (oil, condensate, and natural gas liquids) and natural gas and other factors.

In the course of preparing the Condensed Consolidated Financial Statements, management makes various assumptions, judgments, and estimates to determine the reported amounts of assets, liabilities, revenues, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments, and estimates will occur as a result of the passage of time and the occurrence of future events and, accordingly, actual results could differ from amounts previously established.

The more significant areas requiring the use of assumptions, judgments, and estimates relate to volumes of oil and gas reserves used in calculating depletion, the amount of future net revenues used in computing the ceiling test limitations, and the amount of future capital costs and abandonment obligations used in such calculations, determining impairments of investments in unproved properties, valuing deferred tax assets and goodwill, and estimating fair values of financial instruments, including derivative instruments.

Certain amounts in the prior year financial statements have been reclassified to conform to the 2010 financial statement presentation due primarily to changing to an unclassified statement of operations.

For a more complete understanding of Forest's operations, financial position, and accounting policies, reference is made to the consolidated financial statements of Forest, and related notes thereto, filed with Forest's Annual Report on Form 10-K for the year ended December 31, 2009, previously filed with the Securities and Exchange Commission ("SEC").

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS)

Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the two-class method by dividing net earnings (loss) attributable to common stock by the weighted average number of common shares outstanding during each period. Under the treasury stock method, diluted earnings (loss) per share is computed by dividing net earnings (loss) adjusted for the effects of certain contracts that provide the issuer or holder with a choice between settlement methods by the weighted average number of common shares outstanding adjusted for the dilutive effect, if any, of potential common shares (i.e. stock options, unvested restricted stock grants, and unvested phantom stock units that may be settled in shares). No potential common shares shall be included in the computation of any diluted per share amount when a net loss exists.

The two-class method of computing earnings per share is required for those entities that have participating securities or multiple classes of common stock. The two-class method is an earnings

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS) (Continued)

allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Holders of restricted stock issued under Forest's stock incentive plans have the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock. Holders of phantom stock units issued to directors under Forest's stock incentive plans also have the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock, while phantom stock units issued to employees do not participate in dividends. Stock options issued under Forest's stock incentive plans do not participate in dividends. Therefore, restricted stock issued to employees and directors and phantom stock units issued to directors are participating securities and earnings are allocated to both common stock and these participating securities under the two-class method. However, these participating securities do not have a contractual obligation to share in Forest's losses. Therefore, in periods of net loss, none of the loss is allocated to these participating securities.

Unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three months ended March 31, 2010 as their inclusion would have an antidilutive effect. Stock options, unvested restricted stock grants, and unvested phantom stock units that may be settled in shares were not included in the calculation of diluted loss per share for the three months ended March 31, 2009 as their inclusion would have an antidilutive effect.

The following sets forth the calculation of basic and diluted earnings (loss) per share for the periods presented.

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| | (In Thousands, Except Per Share Amounts) | |
| Net earnings (loss) | \$ 109,162 | (1,177,773) |
| Net earnings attributable to participating securities | | (1,962) |
| Net earnings (loss) attributable to common stock for basic earnings per share | 107,200 | (1,177,773) |
| Adjustment for liability-classified stock-based compensation awards | | 26 |
| Net earnings (loss) for diluted earnings per share | \$ 107,226 | (1,177,773) |
| Weighted average common shares outstanding during the period | 110,416 | 95,571 |
| Dilutive effects of potential common shares | | 586 |
| Weighted average common shares outstanding during the period, including the effects of dilutive potential common shares | 111,002 | 95,571 |
| Basic earnings (loss) per common share | \$.97 | (12.32) |
| Diluted earnings (loss) per common share | \$.97 | (12.32) |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS) (Continued)

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) is a term used to refer to net earnings (loss) plus other comprehensive income (loss). Other comprehensive income (loss) is comprised of revenues, expenses, gains, and losses that under generally accepted accounting principles are reported as separate components of shareholders' equity instead of net earnings (loss). Items included in Forest's other comprehensive income (loss) for the three months ended March 31, 2010 and 2009 are foreign currency gains and losses related to the translation of the assets and liabilities of Forest's Canadian operations and changes in unfunded postretirement benefits.

The components of comprehensive earnings (loss) are as follows:

| | Three Months Ended March 31, | |
|--|---|--------------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Net earnings (loss) | \$ 109,162 | (1,177,773) |
| Other comprehensive income (loss): | | |
| Foreign currency translation gains (losses) | 9,142 | (12,826) |
| Unfunded postretirement benefits, net of tax | 395 | 36 |
| Total comprehensive earnings (loss) | \$ 118,699 | (1,190,563) |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION

The table below sets forth total stock-based compensation recorded during the three months ended March 31, 2010 and 2009, and the remaining unamortized amounts and the weighted average amortization period remaining as of March 31, 2010.

| | Stock Options | Restricted Stock | Phantom Stock Units | Total ⁽¹⁾ |
|--|------------------|---------------------|------------------------|----------------------|
| | (In Thousands) | | | |
| Three months ended March 31, 2010: | | | | |
| Total stock-based compensation costs | \$ 222 | 6,821 | 1,268 | 8,311 |
| Less: stock-based compensation costs capitalized | (93) | (2,691) | (589) | (3,373) |
| Stock-based compensation costs expensed | \$ 129 | 4,130 | 679 | 4,938 |
| Unamortized stock-based compensation costs as of | | | | |
| March 31, 2010 | \$ 1,080 | 25,405 | 6,494 ⁽²⁾ | 32,979 |
| Weighted average amortization period remaining | 1.0 years | 1.4 years | 2.1 years | 1.6 years |
| Three months ended March 31, 2009: | | | | |
| Total stock-based compensation costs | \$ 277 | 5,984 | (76) | 6,185 |
| Less: stock-based compensation costs capitalized | (125) | (2,346) | 45 | (2,426) |
| Stock-based compensation costs expensed | \$ 152 | 3,638 | (31) | 3,759 |

(1) The Company also maintains an employee stock purchase plan (which is not included in the table) under which \$.1 million and \$.2 million of compensation cost was recognized for the three months ended March 31, 2010 and 2009, respectively.

(2) Based on the closing price of the Company's common stock on March 31, 2010.

Stock Options

The following table summarizes stock option activity in the Company's stock-based compensation plans for the three months ended March 31, 2010.

| | Number of Options | Weighted Average Exercise Price | Aggregate Intrinsic Value (In Thousands) ⁽¹⁾ | Number of Options Exercisable |
|--------------------------------|----------------------|---------------------------------------|---|-------------------------------------|
| Outstanding at January 1, 2010 | 1,818,419 | \$ 21.26 | \$ 7,387 | 1,722,216 |
| Granted | | | | |
| Exercised | (114,190) | 19.00 | 812 | |
| Cancelled | (9,640) | 27.69 | | |
| Outstanding at March 31, 2010 | 1,694,589 | \$ 21.38 | \$ 11,094 | 1,598,386 |

(1) The intrinsic value of a stock option is the amount by which the current market value of the underlying stock exceeds the exercise price of the option.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

Restricted Stock and Phantom Stock Units

The following table summarizes the restricted stock and phantom stock unit activity in the Company's stock-based compensation plans for the three months ended March 31, 2010.

| | Restricted Stock | | | Phantom Stock Units ⁽¹⁾ | | |
|--------------------------------|---------------------|--|---|------------------------------------|--|--|
| | Number of Shares | Weighted Average Grant Date Fair Value | Vest Date Fair Value (In Thousands) | Number of Units | Weighted Average Grant Date Fair Value | Vest Date Fair Value (In Thousands) ⁽²⁾ |
| Unvested at January 1, 2010 | 2,028,683 | \$ 39.44 | | 475,063 | \$ 27.91 | |
| Awarded | 400 | 28.23 | | 6,050 | 23.91 | |
| Vested | (5,300) | 38.35 | \$ 144 | (11,150) | 45.14 | \$ 262 |
| Forfeited | (8,350) | 28.47 | | (5,878) | 36.39 | |
| Unvested at March 31, 2010 | 2,015,433 | \$ 39.49 | | 464,085 | \$ 27.34 | |

(1) Of the unvested units of phantom stock at March 31, 2010, 215,250 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 248,835 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements.

(2) Of the 11,150 phantom stock units that vested during the three months ended March 31, 2010, 11,000 units were settled in shares of common stock and 150 units were settled in cash.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT

The components of debt are as follows:

| | March 31, 2010 | | | | December 31, 2009 | | | |
|--|----------------|--------------------------------------|----------------------|-----------|-------------------|--------------------------------------|----------------------|-----------|
| | Principal | Unamortized Premium (Discount) | Other ⁽¹⁾ | Total | Principal | Unamortized Premium (Discount) | Other ⁽¹⁾ | Total |
| | (In Thousands) | | | | | | | |
| 8% Senior Notes due 2011 | \$ 285,000 | 2,260 | 1,431 | 288,691 | 285,000 | 2,583 | 1,638 | 289,221 |
| 7% Senior Subordinated Notes due 2013 | 112 | (2) | | 110 | 112 | (2) | | 110 |
| 8 ¹ / ₂ % Senior Notes due 2014 | 600,000 | (22,594) | | 577,406 | 600,000 | (24,029) | | 575,971 |
| 7 ³ / ₄ % Senior Notes due 2014 ⁽²⁾ | | | | | 150,000 | (1,035) | 7,713 | 156,678 |
| 7 ¹ / ₄ % Senior Notes due 2019 | 1,000,000 | 520 | | 1,000,520 | 1,000,000 | 534 | | 1,000,534 |
| Total long-term debt | 1,885,112 | (19,816) | 1,431 | 1,866,727 | 2,035,112 | (21,949) | 9,351 | 2,022,514 |
| Less: current portion of long-term debt ⁽²⁾ | | | | | (150,000) | 1,035 | (7,713) | (156,678) |
| Long-term portion of long-term debt | \$ 1,885,112 | (19,816) | 1,431 | 1,866,727 | 1,885,112 | (20,914) | 1,638 | 1,865,836 |

(1) Represents the unamortized portion of gains realized upon termination of interest rate swaps in 2002 and 2003 that were accounted for as fair value hedges. The gains are being amortized as a reduction of interest expense over the terms of the notes.

(2) In December 2009, the Company irrevocably called the 7³/₄% senior notes due 2014 and redeemed these notes in January 2010 at 101.292% of par.

Bank Credit Facilities

As of March 31, 2010, the Company had syndicated bank revolving credit agreements with total lender commitments of \$1.8 billion. The credit agreements consist of a \$1.65 billion U.S. credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A. (the "U.S. Credit Facility") and a \$150 million Canadian credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch (the "Canadian Credit Facility," and together with the U.S. Credit Facility, the "Credit Facilities"). The Credit Facilities will mature in June 2012. At March 31, 2010, there were no outstanding borrowings under the Credit Facilities.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT (Continued)

Forest's availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"). As of March 31, 2010, the borrowing base under the Credit Facilities was \$1.3 billion, which Forest has allocated \$1.155 billion to the U.S. Credit Facility and \$145 million to the Canadian Credit Facility. The determination of the Global Borrowing Base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of Forest's oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders' customary practices for oil and gas loans. The available borrowing amount under the Credit Facilities could increase or decrease based on such redetermination. In April 2010, the lenders reaffirmed the borrowing base at \$1.3 billion and the next redetermination is expected to occur in the third or fourth quarter of 2010. In addition to the semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the Global Borrowing Base redetermined. The Global Borrowing Base is also subject to automatic adjustments if certain events occur.

7³/₄% Senior Notes Due 2014

In December 2009, Forest notified the trustee and note holders of the 7³/₄% senior notes that it was calling the 7³/₄% senior notes. This notice was irrevocable after it was given. The 7³/₄% senior notes were redeemed in January 2010 at 101.292% of par and a net gain of \$4.6 million was recognized upon redemption. The net gain was driven by the write-off of unamortized deferred gains on the termination of interest rate swaps.

(5) OIL AND GAS PROPERTIES

Full Cost Method of Accounting

The Company uses the full cost method of accounting for oil and gas properties. Separate cost centers are maintained for each country in which the Company has operations. During the periods presented, the Company's primary oil and gas operations were conducted in the United States and Canada. All costs incurred in the acquisition, exploration, and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes, and overhead related to exploration and development activities) and the fair value of estimated future costs of site restoration, dismantlement, and abandonment activities are capitalized. During the three months ended March 31, 2010 and 2009, Forest capitalized \$12.1 million and \$10.4 million of general and administrative costs (including stock-based compensation), respectively. Interest costs related to significant unproved properties that are under development are also capitalized to oil and gas properties. During the three months ended March 31, 2010 and 2009, the Company capitalized \$2.8 million and \$3.4 million, respectively, of interest costs attributed to unproved properties.

Investments in unproved properties, including capitalized interest costs, are not depleted pending determination of the existence of proved reserves. Unproved properties are assessed periodically to ascertain whether impairment has occurred. Unproved properties whose costs are individually significant are assessed individually by considering the primary lease terms of the properties, the holding period of the properties, geographic and geologic data obtained relating to the properties, and estimated discounted future net cash flows from the properties. Estimated discounted future net cash flows are based on discounted future net revenues associated with probable and possible reserves, risk

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(5) OIL AND GAS PROPERTIES (Continued)

adjusted as appropriate. Where it is not practicable to assess individually the amount of impairment of properties for which costs are not individually significant, such properties are grouped for purposes of assessing impairment. The amount of impairment assessed is added to the costs to be amortized, or is reported as a period expense, as appropriate.

The Company performs a ceiling test each quarter on a country-by-country basis. The full cost ceiling test is a limitation on capitalized costs prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is not a fair value based measurement. Rather, it is a standardized mathematical calculation. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices (as discussed below), excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, at a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, a ceiling test write-down would be recognized to the extent of the excess capitalized costs. The March 31, 2010 ceiling test, which did not result in a write-down, was based on average prices during the twelve-month period prior to March 31, 2010 pursuant to the SEC's "Modernization of Oil and Gas Reporting" rule, which was effective beginning with December 31, 2009 reporting. The March 31, 2009 ceiling test, which was based on the March 31, 2009 spot prices, resulted in non-cash write-downs of oil and gas property costs of \$1.4 billion in the United States cost center and \$199.0 million in the Canada cost center.

Gain or loss is not recognized on the sale of oil and gas properties unless the sale significantly alters the relationship between capitalized costs and estimated proved oil and gas reserves attributable to a cost center.

Depletion of proved oil and gas properties is computed on the units-of-production method, whereby capitalized costs, as adjusted for future development costs and asset retirement obligations, are amortized over the total estimated proved reserves. The Company uses its quarter-end reserves estimates to calculate depletion for the current quarter.

(6) ASSET RETIREMENT OBLIGATIONS

Forest records the fair value of a liability for an asset retirement obligation in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Subsequent to initial measurement, the asset retirement obligation is required to be accreted each period to its present value. Capitalized costs are depleted as a component of the full cost pool using the units-of-production method. Forest's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) ASSET RETIREMENT OBLIGATIONS (Continued)

The following table summarizes the activity for Forest's asset retirement obligations for the three months ended March 31, 2010 and 2009.

| | Three Months Ended March 31, | |
|---|---------------------------------|---------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Asset retirement obligations at beginning of period | \$ 93,303 | 96,991 |
| Accretion expense | 1,839 | 2,038 |
| Liabilities incurred | 945 | 1,313 |
| Liabilities settled | (151) | (880) |
| Disposition of properties | (513) | (607) |
| Revisions of estimated liabilities | (10,555) | 1,172 |
| Impact of foreign currency exchange rate | 385 | (383) |
| Asset retirement obligations at end of period | 85,253 | 99,644 |
| Less: current asset retirement obligations | (3,006) | (3,477) |
| Long-term asset retirement obligations | \$ 82,247 | 96,167 |

(7) FAIR VALUE MEASUREMENTS

The authoritative accounting guidance regarding fair value measurements for assets and liabilities measured at fair value establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers consist of: Level 1, defined as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company uses the income approach to value financial instruments under the Level 2 hierarchy.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

The Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2010 are set forth by level within the fair value hierarchy in the table below.

| Description | Using Significant Other Observable Inputs (Level 2) (In Thousands) |
|---------------------------------------|--|
| Assets: | |
| Derivative instruments ⁽¹⁾ | |
| Commodity | \$ 110,289 |
| Interest rate | 7,501 |
| Total assets | \$ 117,790 |
| Liabilities: | |
| Derivative instruments ⁽¹⁾ | |
| Commodity | \$ 36,056 |
| Interest rate | 4,510 |
| Total liabilities | \$ 40,566 |

(1) The Company's derivative assets and liabilities include commodity and interest rate derivatives (see Note 8 for more information on these instruments). The Company utilizes present value techniques and option-pricing models for valuing its derivatives. Inputs to these valuation techniques include published forward prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's derivative instruments are included within the Level 2 fair value hierarchy.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

The following table presents a reconciliation of the beginning and ending balances of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2009.

| | Three Months Ended March 31, 2009 | |
|--|--------------------------------------|-----------------------------------|
| | Equity Securities | Debt Securities ⁽¹⁾ |
| | (In Thousands) | |
| Balance at beginning of period | | 1,670 |
| Total (losses) (realized/unrealized): | | |
| Included in earnings | (657) | (1,670) |
| Included in other comprehensive income | | |
| Purchases, issuances, sales, and settlements: | | |
| Purchases | | |
| Issuances | | |
| Sales | | |
| Settlements | | |
| Transfers in and/or out of Level 3 ⁽²⁾⁽³⁾ | 657 | |
| Balance at end of period | | |

The amount of total (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at end of period

| | | |
|--|-------|---------|
| | (657) | (1,670) |
|--|-------|---------|

(1) The Company's debt securities are comprised of a zero coupon senior subordinated note due from Pacific Energy Resources, Ltd. ("PERL") in 2014 at a principal amount at stated maturity of \$60.8 million (the "PERL Note") that was received as a portion of the total consideration for the sale of the Company's Alaska assets in 2007. In March 2009, PERL filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. The Company used its own assumptions as to what market participants would assume regarding future cash flows and risk-adjusted discount rates in valuing the PERL Note, which is currently valued at zero and has been since March 31, 2009.

(2) The Company's investment in PERL common stock, which the Company also received as a portion of the total consideration for the sale of the Company's Alaska assets in 2007, was transferred from Level 1 to Level 3 in the first quarter of 2009 when PERL's common stock was suspended from trading for failure to meet the continued stock exchange listing requirements. The Company used its own assumptions as to what market participants would assume regarding future cash flows and risk-adjusted discount rates in valuing the PERL common stock, which is currently valued at zero and has been since March 31, 2009.

(3) The Company's policy is to recognize transfers in and/or out of fair value hierarchy levels as of the beginning of the reporting period in which the event or change in circumstances caused the transfer.

Losses (realized and unrealized) included in earnings related to the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

ended March 31, 2009 are reported in the Condensed Consolidated Statements of Operations under "Other, net" as follows:

| | Three Months Ended March 31, 2009 | |
|--|--------------------------------------|--------------------|
| | Equity Securities | Debt Securities |
| | (In Thousands) | |
| Total losses included in earnings for the period | 657 | 1,670 |
| Change in unrealized losses relating to assets still held at end of period | 657 | 1,670 |

The fair values and carrying amounts of the Company's financial instruments are summarized below for the periods presented.

| | March 31, 2010 | | December 31, 2009 | |
|---|--------------------|------------------------------|--------------------|------------------------------|
| | Carrying Amount | Fair Value ⁽¹⁾ | Carrying Amount | Fair Value ⁽¹⁾ |
| | (In Thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 213,778 | 213,778 | 467,221 | 467,221 |
| Derivative instruments | 117,790 | 117,790 | 36,199 | 36,199 |
| Liabilities: | | | | |
| Derivative instruments | 40,566 | 40,566 | 42,184 | 42,184 |
| 8% senior notes due 2011 | 288,691 | 302,100 | 289,221 | 296,400 |
| 7% senior subordinated notes due 2013 | 110 | 112 | 110 | 112 |
| 8 ¹ / ₂ % senior notes due 2014 | 577,406 | 636,000 | 575,971 | 630,000 |
| 7 ³ / ₄ % senior notes due 2014 | | | 156,678 | 151,938 |
| 7 ¹ / ₄ % senior notes due 2019 | 1,000,520 | 1,005,000 | 1,000,534 | 992,500 |

(1) The Company used various assumptions and methods in estimating the fair values of its financial instruments. The carrying amount of cash and cash equivalents approximated fair value due to the short original maturities (three months or less) and high liquidity of the cash equivalents. The fair values of the senior notes and senior subordinated notes were estimated based on quoted market prices. The methods used to determine the fair values of the derivative instruments are discussed above. See also Note 8 to the Condensed Consolidated Financial Statements for more information on the derivative instruments.

(8) DERIVATIVE INSTRUMENTS

Commodity Derivatives

Forest periodically enters into derivative instruments such as swap, basis swap, and collar agreements as an attempt to moderate the effects of wide fluctuations in commodity prices on the Company's cash flow and to manage the exposure to commodity price risk. Forest's commodity derivative instruments generally serve as effective economic hedges of commodity price exposure; however, the Company has elected not to designate its derivatives as hedging instruments. As such, the Company recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed Consolidated Statement of Operations.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

The table below sets forth Forest's outstanding commodity swaps and costless collars as of March 31, 2010.

| | Natural Gas (NYMEX HH) | | Oil (NYMEX WTI) | |
|----------------------------|------------------------|---|--------------------|---|
| | Bbtu Per Day | Weighted Average Hedged Price per MMBtu | Barrels Per Day | Weighted Average Hedged Price per Bbl |
| Swaps: | | | | |
| April 2010 - December 2010 | 200 | \$ 6.28 | 3,000 | \$ 76.06 |
| Collars: | | | | |
| April 2010 - December 2010 | | | 2,000 | 60.00/98.50 ⁽¹⁾ |
| Calendar 2011 | | | 2,000 | 75.00/92.80 ⁽¹⁾ |

(1) Represents weighted average hedged floor and ceiling price per Bbl.

Subsequent to March 31, 2010, through April 30, 2010, Forest entered into an additional gas swap covering 10 Bbtu per day for the period May 2010 through December 2010 at a hedged price of \$4.505 per MMBtu and entered into an additional oil collar covering 1,000 barrels per day for Calendar 2011 at a hedged floor and ceiling price per barrel of \$75.00 and \$105.00, respectively.

Forest also uses basis swaps in connection with natural gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the natural gas production is sold. The table below sets forth Forest's outstanding basis swaps as of March 31, 2010.

| Remaining Swap Term | Index | Basis Swaps | |
|----------------------------|----------------------|-----------------|---|
| | | Bbtu Per Day | Weighted Average Hedged Price Differential per MMBtu |
| April 2010 - December 2010 | Centerpoint | 30 | \$ (.95) |
| April 2010 - December 2010 | Houston Ship Channel | 50 | (.29) |
| April 2010 - December 2010 | Mid Continent | 60 | (1.04) |
| April 2010 - December 2010 | NGPL TXOK | 40 | (.44) |

Interest Rate Derivatives

Forest periodically enters into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within its debt portfolio. The Company has elected not to designate its derivatives as hedging instruments. As such, the Company recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

Consolidated Statement of Operations. The table below sets forth Forest's outstanding fixed-to-floating interest rate swaps as of March 31, 2010.

| Remaining Swap Term | Interest Rate Swaps | | Weighted Average Fixed Rate |
|----------------------------|-----------------------------------|--------------------------------|-----------------------------|
| | Notional Amount (In Thousands) | Weighted Average Floating Rate | |
| April 2010 - February 2014 | \$ 500,000 | 1 month LIBOR + 5.89% | 8.50% |

In addition to interest rate swaps, Forest periodically enters into interest rate swaptions that enable the counterparties to exercise options to enter into interest rate swaps with Forest in exchange for premiums paid to Forest. The premiums received on these swaptions are amortized as realized gains on derivatives over the terms of the related swaptions. Forest enters into these interest rate swaptions because its targeted floating interest rates are not attainable at the time in the interest rate swap market, yet premiums are available from counterparties for the option to swap Forest's 8.5% fixed rate for the floating rates it had targeted. The table below sets forth Forest's outstanding interest rate swaption as of March 31, 2010.

| Option Term | Swap Term | Interest Rate Swaption | | Floating Rate | Fixed Rate |
|-----------------------|---------------------|------------------------------------|-----------------------------------|-----------------------|------------|
| | | Premium Received (In Thousands) | Notional Amount (In Thousands) | | |
| Jan 2010 - April 2010 | May 2010 - Feb 2014 | \$ 350 | \$ 100,000 | 3 month LIBOR + 5.50% | 8.50% |

In April 2010, the interest rate swaption in the table above was unexercised and the Company entered into an additional interest rate swaption as set forth in the table below.

| Option Term | Swap Term | Interest Rate Swaption | | Floating Rate | Fixed Rate |
|--------------------------|---------------------|------------------------------------|-----------------------------------|-----------------------|------------|
| | | Premium Received (In Thousands) | Notional Amount (In Thousands) | | |
| April 2010 - August 2010 | Aug 2010 - Feb 2014 | \$ 634 | \$ 100,000 | 3 month LIBOR + 5.75% | 8.50% |

Fair Value and Gains and Losses

The table below summarizes the location and fair value amounts of Forest's derivative instruments reported in the Condensed Consolidated Balance Sheets as of the dates indicated. These derivative instruments are not designated as hedging instruments for accounting purposes. For financial reporting purposes, Forest does not offset asset and liability fair value amounts recognized for derivative

Table of Contents**FOREST OIL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(8) DERIVATIVE INSTRUMENTS (Continued)**

instruments with the same counterparty under its master netting arrangements. See Note 7 to the Condensed Consolidated Financial Statements for more information on Forest's derivative instruments.

| | March 31, 2010 | December 31, 2009 |
|---|------------------|-------------------|
| | (In Thousands) | |
| Assets: | | |
| Commodity derivatives: | | |
| Current assets: derivative instruments | \$ 110,289 | 35,454 |
| Interest rate derivatives: | | |
| Current assets: derivative instruments | 7,501 | 189 |
| Derivative instruments | | 556 |
| Total assets | 117,790 | 36,199 |
| Liabilities: | | |
| Commodity derivatives: | | |
| Current liabilities: derivative instruments | 35,023 | 40,843 |
| Derivative instruments | 1,033 | |
| Interest rate derivatives: | | |
| Current liabilities: derivative instruments | 89 | 515 |
| Derivative instruments | 4,421 | 826 |
| Total liabilities | 40,566 | 42,184 |
| Net derivative fair value | \$ 77,224 | (5,985) |

The table below summarizes the amount of derivative instrument gains reported in the Condensed Consolidated Statements of Operations as realized and unrealized gains on derivative instruments, net, for the periods indicated. These derivative instruments are not designated as hedging instruments for accounting purposes.

| | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, | |
| | 2010 | 2009 |
| | (In Thousands) | |
| Commodity derivatives: | | |
| Realized (gains) | \$ (6,448) | (71,265) |
| Unrealized (gains) | (79,622) | (65,784) |
| Interest rate derivatives: | | |
| Realized (gains) | (3,521) | (524) |
| Unrealized (gains) | (3,620) | (1,755) |
| Realized and unrealized (gains) on derivative instruments, net | \$ (93,211) | (139,328) |

Due to the volatility of oil and natural gas prices, the estimated fair values of Forest's commodity derivative instruments are subject to large fluctuations from period to period. Forest has experienced the effects of these commodity price fluctuations in both the current period and prior

periods and expects that volatility in commodity prices will continue.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

Credit Risk

Forest executes with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. Additionally, Forest executes, with each of its derivative counterparties, a Schedule, which modifies the terms and conditions of the ISDA Master Agreement according to the parties' requirements and the specific types of derivatives to be traded. All but one of the counterparties is a lender, or an affiliate of a lender, under the Credit Facilities, which provide that any security granted by Forest under the Credit Facilities shall also extend to and be available to those lenders that are counterparties to derivative transactions with Forest. None of these counterparties require collateral beyond that already pledged under the Credit Facilities. The remaining counterparty, a purchaser of Forest's natural gas production, generally is a net debtor to Forest and as a result of these purchases does not require collateral under the ISDA Master Agreement and Schedule it has executed with Forest.

The ISDA Master Agreements and Schedules contain cross-default provisions whereby a default under the Credit Facilities will also cause a default under the derivative agreements. Such events of default include non-payment, breach of warranty, non-performance of financial covenants, default on other indebtedness, certain pension plan events, certain adverse judgments, change of control, a failure of the liens securing the Credit Facilities, and an event of default under the Canadian Facility. In addition, bankruptcy and insolvency events with respect to Forest or certain of its subsidiaries will result in an automatic acceleration of the indebtedness under the Credit Facilities. None of these events of default are specifically credit-related, but some could arise if there were a general deterioration of Forest's credit. The ISDA Master Agreements and Schedules contain a further credit-related termination event that would occur if Forest were to merge with another entity and the creditworthiness of the resulting entity was materially weaker than that of Forest.

The vast majority of Forest's derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Forest does not require the posting of collateral for its benefit under its derivative agreements. However, Forest's ISDA Master Agreements contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions apply to all derivative transactions with the particular counterparty. If all counterparties failed, Forest would be exposed to a risk of loss equal to this net amount owed to us, the fair value of which was \$88.4 million at March 31, 2010. If Forest suffered an event of default, each counterparty could demand immediate payment, subject to notification periods, of the net obligations due to it under the derivative agreements. At March 31, 2010, Forest owed a net derivative liability to four counterparties, the fair value of which was \$11.2 million.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) INCOME TAXES

A reconciliation of income tax computed by applying the United States statutory federal income tax rate is as follows:

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Federal income tax at 35% of earnings (loss) before income taxes | \$ 59,001 | (513,842) |
| Change in valuation allowance for deferred tax assets ⁽¹⁾ | | 215,836 |
| State income taxes, net of federal income tax benefits | 1,671 | (14,244) |
| Effect of differing tax rates in Canada | (1,329) | 12,338 |
| Effect of federal, state, and foreign tax on permanent items | 932 | 3,119 |
| Adjustments for statutory rate reductions and other | (864) | 6,446 |
| Total income tax | \$ 59,411 | (290,347) |

(1) In assessing the need for a valuation allowance on the Company's deferred tax assets, all available evidence, both negative and positive, was considered in determining whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Based on this assessment, Forest recorded a valuation allowance of \$215.3 million against its U.S. deferred tax assets as of March 31, 2009.

(10) COSTS, EXPENSES, AND OTHER

The table below sets forth the components of "Other, net" in the Condensed Consolidated Statements of Operations for the periods indicated.

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Unrealized foreign currency exchange (gains) losses, net | \$ (6,650) | 3,539 |
| Unrealized losses on other investments, net | | 2,327 |
| (Gain) on debt extinguishment, net | (4,578) | |
| Other, net | 1,395 | 3,217 |
| | \$ (9,833) | 9,083 |

(11) GEOGRAPHICAL SEGMENTS

At March 31, 2010, Forest conducted operations in one industry segment, oil and gas exploration and production, and had three reportable geographical business segments: United States, Canada, and International. Forest's remaining activities were not significant and therefore were not reported as a separate segment, but have been included as a reconciling item in the information below. The segments were determined based upon the geographical location of operations in each business segment. The

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) GEOGRAPHICAL SEGMENTS (Continued)

segment data presented below was prepared on the same basis as the Condensed Consolidated Financial Statements.

| | Oil and Gas Exploration and Production | | | |
|---|--|---------|---------------|---------------|
| | Three Months Ended March 31, 2010 | | | |
| | United States | Canada | International | Total Company |
| | (In Thousands) | | | |
| Oil and gas sales | \$ 184,322 | 37,407 | | 221,729 |
| Costs and expenses: | | | | |
| Lease operating expenses | 23,468 | 5,634 | | 29,102 |
| Production and property taxes | 10,806 | 622 | | 11,428 |
| Transportation and processing costs | 2,655 | 2,204 | | 4,859 |
| Depletion | 36,511 | 13,116 | | 49,627 |
| Accretion of asset retirement obligations | 1,549 | 265 | 25 | 1,839 |
| Segment earnings (loss) | \$ 109,333 | 15,566 | (25) | 124,874 |
| Capital expenditures ⁽¹⁾ | \$ 166,496 | 107,641 | 1,114 | 275,251 |
| Goodwill ⁽²⁾ | \$ 239,420 | 17,058 | | 256,478 |
| Long-lived assets ⁽²⁾⁽³⁾ | \$ 1,845,983 | 555,412 | 88,138 | 2,489,533 |
| Total assets ⁽²⁾ | \$ 2,991,423 | 643,660 | 89,013 | 3,724,096 |

(1) Includes estimated discounted asset retirement obligations of \$(9.6) million.

(2) As of March 31, 2010.

(3) Consists of net property and equipment.

A reconciliation of segment earnings to consolidated earnings before income taxes is as follows:

| | Three Months Ended March 31, 2010 (In Thousands) |
|---------------------------------------|--|
| Segment earnings | \$ 124,874 |
| Interest and other income | 136 |
| General and administrative expense | (18,753) |
| Depreciation and amortization expense | (2,685) |
| Interest expense | (38,043) |

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| | | |
|--|----|---------|
| Realized and unrealized gains on derivative instruments, net | | 93,211 |
| Other, net | | 9,833 |
| Earnings before income taxes | \$ | 168,573 |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) GEOGRAPHICAL SEGMENTS (Continued)

Oil and Gas Exploration and Production

Three Months Ended March 31, 2009

| | United States | Canada | International | Total Company |
|---|----------------|-----------|---------------|---------------|
| | (In Thousands) | | | |
| Oil and gas sales | \$ 166,352 | 28,307 | | 194,659 |
| Costs and expenses: | | | | |
| Lease operating expenses | 34,702 | 6,529 | | 41,231 |
| Production and property taxes | 10,944 | 751 | | 11,695 |
| Transportation and processing costs | 3,039 | 2,205 | | 5,244 |
| Depletion | 86,491 | 15,678 | | 102,169 |
| Ceiling test write-down of oil and gas properties | 1,376,822 | 199,021 | | 1,575,843 |
| Accretion of asset retirement obligations | 1,772 | 243 | 23 | 2,038 |
| Segment loss | \$ (1,347,418) | (196,120) | (23) | (1,543,561) |
| Capital expenditures ⁽¹⁾ | \$ 225,860 | 25,976 | 965 | 252,801 |
| Goodwill ⁽²⁾ | \$ 239,420 | 13,738 | | 253,158 |
| Long-lived assets ⁽²⁾⁽³⁾ | \$ 2,532,182 | 458,647 | 78,618 | 3,069,447 |
| Total assets ⁽²⁾ | \$ 3,455,316 | 476,440 | 79,578 | 4,011,334 |

(1) Includes estimated discounted asset retirement obligations of \$2.5 million.

(2) As of March 31, 2009.

(3) Consists of net property and equipment.

A reconciliation of segment loss to consolidated loss before income taxes is as follows:

| | Three Months Ended March 31, 2009 |
|--|--------------------------------------|
| | (In Thousands) |
| Segment loss | \$ (1,543,561) |
| Interest and other income | 209 |
| General and administrative expense | (16,085) |
| Depreciation and amortization expense | (2,383) |
| Interest expense | (36,545) |
| Realized and unrealized gains on derivative instruments, net | 139,328 |
| Other, net | (9,083) |

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| | | |
|--------------------------|----|-------------|
| Loss before income taxes | \$ | (1,468,120) |
|--------------------------|----|-------------|

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company's 8% senior notes due 2011, 8¹/₂% senior notes due 2014, and 7¹/₄% senior notes due 2019 have been fully and unconditionally guaranteed by Forest Oil Permian Corporation, a wholly-owned subsidiary of the Company (the "Subsidiary Guarantor"). The Company's remaining subsidiaries (the "Non-Guarantor Subsidiaries") have not provided guarantees. Based on this distinction, the following presents condensed consolidating financial information as of March 31, 2010 and December 31, 2009 and for the three months ended March 31, 2010 and 2009 on an issuer (parent company), guarantor subsidiary, non-guarantor subsidiaries, eliminating entries, and consolidated basis. Elimination entries presented are necessary to combine the entities.

CONDENSED CONSOLIDATING BALANCE SHEETS

(Unaudited)
(In Thousands)

| | March 31, 2010 | | | | December 31, 2009 | | | | | |
|--|-------------------|-------------------------|-------------------------------|--------------|-------------------|-------------------------|-------------------------------|--------------|--------------|-----------|
| | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Consolidated | |
| ASSETS | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | \$ 213,069 | 2 | 707 | | 213,778 | 456,978 | 379 | 9,864 | 467,221 | |
| Accounts receivable | 64,158 | 26,444 | 43,390 | (1,202) | 132,790 | 79,857 | 24,406 | 22,671 | (580) | 126,354 |
| Deferred income taxes | | | | | 6,589 | 519 | | | | 7,108 |
| Other current assets | 185,897 | 951 | 28,114 | | 214,962 | 115,663 | 797 | 12,849 | | 129,309 |
| Total current assets | 463,124 | 27,397 | 72,211 | (1,202) | 561,530 | 659,087 | 26,101 | 45,384 | (580) | 729,992 |
| Property and equipment, at cost | 7,228,860 | 1,107,838 | 1,808,125 | | 10,144,823 | 7,093,082 | 1,074,610 | 1,657,986 | | 9,825,678 |
| Less accumulated depreciation, depletion, and amortization | 5,534,411 | 1,001,814 | 1,119,065 | | 7,655,290 | 5,502,530 | 994,005 | 1,069,936 | | 7,566,471 |
| Net property and equipment | 1,694,449 | 106,024 | 689,060 | | 2,489,533 | 1,590,552 | 80,605 | 588,050 | | 2,259,207 |
| Investment in subsidiaries | 342,988 | | | (342,988) | 308,424 | | | | (308,424) | |
| Note receivable from subsidiary | 162,529 | | | (162,529) | 135,529 | | | | (135,529) | |
| Goodwill | 216,460 | 22,960 | 17,058 | | 256,478 | 216,460 | 22,960 | 16,488 | | 255,908 |
| Due from (to) parent and subsidiaries | 229,299 | (63,401) | (165,898) | | 215,679 | (60,884) | (154,795) | | | |
| Deferred income taxes | 374,516 | | | (2,458) | 372,058 | 395,519 | | | (2,458) | 393,061 |
| Other assets | 42,062 | 6 | 2,429 | | 44,497 | 44,087 | 6 | 2,429 | | 46,522 |

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| | | | | | | | | | | |
|---|--------------|--------|---------|-----------|------------------|-----------|--------|---------|-----------|------------------|
| | \$ 3,525,427 | 92,986 | 614,860 | (509,177) | 3,724,096 | 3,565,337 | 68,788 | 497,556 | (446,991) | 3,684,690 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 215,978 | 4,964 | 103,056 | (1,202) | 322,796 | 238,935 | 6,825 | 39,122 | (580) | 284,302 |
| Current portion of long-term-debt | | | | | | 156,678 | | | | 156,678 |
| Other current liabilities | 111,883 | 51 | 6,554 | | 118,488 | 86,633 | 64 | 7,343 | | 94,040 |
| Total current liabilities | 327,861 | 5,015 | 109,610 | (1,202) | 441,284 | 482,246 | 6,889 | 46,465 | (580) | 535,020 |
| Long-term debt | 1,866,727 | | | | 1,866,727 | 1,865,836 | | | | 1,865,836 |
| Note payable to parent | | | 162,529 | (162,529) | | | | 135,529 | (135,529) | |
| Other liabilities | 122,215 | 161 | 33,380 | | 155,756 | 121,869 | 769 | 35,158 | | 157,796 |
| Deferred income taxes | 921 | 20,228 | 33,935 | (2,458) | 52,626 | 16,232 | 4,446 | 28,664 | (2,458) | 46,884 |
| Total liabilities | 2,317,724 | 25,404 | 339,454 | (166,189) | 2,516,393 | 2,486,183 | 12,104 | 245,816 | (138,567) | 2,605,536 |
| Shareholders' equity | 1,207,703 | 67,582 | 275,406 | (342,988) | 1,207,703 | 1,079,154 | 56,684 | 251,740 | (308,424) | 1,079,154 |
| | \$ 3,525,427 | 92,986 | 614,860 | (509,177) | 3,724,096 | 3,565,337 | 68,788 | 497,556 | (446,991) | 3,684,690 |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(Unaudited)
(In Thousands)

Three Months Ended March 31,

| | 2010 | | | | 2009 | | | | | |
|--|-------------------|-------------------------|-------------------------------|--------------|-------------------|-------------------------|-------------------------------|--------------|---------|-------------|
| | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | | |
| Revenues | | | | | | | | | | |
| Oil and gas sales | \$ 142,456 | 41,142 | 38,131 | | 221,729 | 133,143 | 32,521 | 28,995 | | 194,659 |
| Interest and other | 1,684 | 9 | 6 | (1,563) | 136 | 3,057 | 75 | 53 | (2,976) | 209 |
| Equity earnings (losses) in subsidiaries | 41,067 | | | (41,067) | | (310,643) | | | 310,643 | |
| Total revenues | 185,207 | 41,151 | 38,137 | (42,630) | 221,865 | (174,443) | 32,596 | 29,048 | 307,667 | 194,868 |
| Costs, expenses, and other: | | | | | | | | | | |
| Lease operating expenses | 20,631 | 2,689 | 5,782 | | 29,102 | 28,925 | 5,556 | 6,750 | | 41,231 |
| Other direct operating costs | 11,224 | 2,614 | 2,449 | | 16,287 | 13,153 | 1,474 | 2,312 | | 16,939 |
| General and administrative | 15,648 | 548 | 2,557 | | 18,753 | 13,312 | 715 | 2,058 | | 16,085 |
| Depreciation, depletion, and amortization | 30,883 | 7,809 | 13,620 | | 52,312 | 71,516 | 18,011 | 15,025 | | 104,552 |
| Ceiling test write-down of oil and gas properties | | | | | | 1,155,777 | 218,567 | 201,499 | | 1,575,843 |
| Interest expense | 37,303 | 857 | 1,446 | (1,563) | 38,043 | 31,667 | 2,303 | 5,551 | (2,976) | 36,545 |
| Realized and unrealized gains on derivative instruments, net | (77,047) | (15,954) | (210) | | (93,211) | (113,095) | (25,723) | (510) | | (139,328) |
| Other, net | (2,704) | (52) | (5,238) | | (7,994) | 5,610 | 96 | 5,415 | | 11,121 |
| Total costs, expenses, and other | 35,938 | (1,489) | 20,406 | (1,563) | 53,292 | 1,206,865 | 220,999 | 238,100 | (2,976) | 1,662,988 |
| Earnings (loss) before income taxes | 149,269 | 42,640 | 17,731 | (41,067) | 168,573 | (1,381,308) | (188,403) | (209,052) | 310,643 | (1,468,120) |
| Income tax | 40,107 | 15,786 | 3,518 | | 59,411 | (203,535) | (35,928) | (50,884) | | (290,347) |
| | \$ 109,162 | 26,854 | 14,213 | (41,067) | 109,162 | (1,177,773) | (152,475) | (158,168) | 310,643 | (1,177,773) |

Net earnings
(loss)

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(Unaudited)
(In Thousands)

Three Months Ended March 31,

| | 2010 | | | | 2009 | | | |
|---|-------------------|-------------------------|---|------------------|-------------------|-------------------------|---|--------------------|
| | Parent Company | Guarantor Subsidiary | Combined Non-Guarantor Subsidiaries | Consolidated | Parent Company | Guarantor Subsidiary | Combined Non-Guarantor Subsidiaries | Consolidated |
| Operating activities: | | | | | | | | |
| Net earnings (loss) | \$ 68,095 | 26,854 | 14,213 | 109,162 | (867,130) | (152,475) | (158,168) | (1,177,773) |
| Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation, depletion, and amortization | 30,883 | 7,809 | 13,620 | 52,312 | 71,516 | 18,011 | 15,025 | 104,552 |
| Unrealized gains on derivative instruments, net | (68,289) | (14,759) | (194) | (83,242) | (54,947) | (12,347) | (245) | (67,539) |
| Deferred income tax | 39,390 | 15,786 | 3,518 | 58,694 | (204,803) | (35,928) | (50,884) | (291,615) |
| Ceiling test write-down of oil and gas properties | | | | | 1,155,777 | 218,567 | 201,499 | 1,575,843 |
| Other, net | 2,867 | 41 | (6,547) | (3,639) | 9,017 | 81 | 3,940 | 13,038 |
| Changes in operating assets and liabilities: | | | | | | | | |
| Accounts receivable | 15,699 | (2,038) | (18,716) | (5,055) | 46,994 | 3,438 | (7,152) | 43,280 |
| Other current assets | 12,064 | (154) | (14,784) | (2,874) | 10,465 | (348) | 19 | 10,136 |
| Accounts payable and accrued liabilities | (66,341) | (2,879) | 2,727 | (66,493) | (71,829) | (5,014) | (13,139) | (89,982) |
| Accrued interest and other current liabilities | 8,041 | (21) | (1,207) | 6,813 | 30,496 | (249) | (1,821) | 28,426 |
| Net cash provided (used) by operating activities | 42,409 | 30,639 | (7,370) | 65,678 | 125,556 | 33,736 | (10,926) | 148,366 |
| Investing activities: | | | | | | | | |
| Capital expenditures for property and equipment | (107,640) | (32,101) | (53,597) | (193,338) | (228,685) | (56,534) | (37,950) | (323,169) |
| Proceeds from sales of assets | 157 | 40 | 10,569 | 10,766 | 96 | | 6,196 | 6,292 |
| Net cash used by investing activities | (107,483) | (32,061) | (43,028) | (182,572) | (228,589) | (56,534) | (31,754) | (316,877) |
| Financing activities: | | | | | | | | |
| Issuance of 8 ¹ / ₂ % senior notes, net of issuance costs | | | | | 559,767 | | | 559,767 |
| Redemption of 7 ³ / ₄ % senior notes | (151,938) | | | (151,938) | | | | |
| Proceeds from bank borrowings | | | 7,875 | 7,875 | 373,000 | | 57,856 | 430,856 |
| Repayments of bank borrowings | | | (7,875) | (7,875) | (763,000) | | (36,484) | (799,484) |
| Net activity in investments from subsidiaries | (40,289) | 1,839 | 38,450 | | (42,729) | 25,262 | 17,467 | |
| Other, net | 13,392 | (794) | 2,829 | 15,427 | (24,766) | (2,517) | 3,326 | (23,957) |

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| | | | | | | | | |
|--|------------|-------|---------|------------------|---------|--------|--------|----------------|
| Net cash (used) provided by financing activities | (178,835) | 1,045 | 41,279 | (136,511) | 102,272 | 22,745 | 42,165 | 167,182 |
| Effect of exchange rate changes on cash | | | (38) | (38) | | | (20) | (20) |
| Net decrease in cash and cash equivalents | (243,909) | (377) | (9,157) | (253,443) | (761) | (53) | (535) | (1,349) |
| Cash and cash equivalents at beginning of period | 456,978 | 379 | 9,864 | 467,221 | 1,226 | 74 | 905 | 2,205 |
| Cash and cash equivalents at end of period | \$ 213,069 | 2 | 707 | 213,778 | 465 | 21 | 370 | 856 |

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Forest Oil Corporation ("Forest") is an independent oil and gas company engaged in the acquisition, exploration, development, and production of natural gas and liquids primarily in North America. Forest was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969. Unless the context otherwise indicates, references in this quarterly report on Form 10-Q to "Forest," "we," "ours," "us," or like terms refer to Forest Oil Corporation and its subsidiaries.

We currently conduct our operations in three geographical segments: the United States, Canada, and International. Our core operational areas, where the majority of our exploration and development activities are planned in 2010, are the Texas Panhandle area, the East Texas / North Louisiana area, and the Canadian Deep Basin area in Alberta and British Columbia. Our total estimated proved reserves as of December 31, 2009 were approximately 2,121 Bcfe. At December 31, 2009, approximately 83% of our estimated proved oil and natural gas reserves were in the United States, approximately 15% were in Canada, and approximately 2% were in Italy. Approximately 80% of our estimated proved reserves were natural gas as of December 31, 2009. See Note 11 to the Condensed Consolidated Financial Statements for additional information about our geographical segments.

The following discussion and analysis should be read in conjunction with Forest's Condensed Consolidated Financial Statements and Notes thereto, the information under the heading "Forward-Looking Statements" below, and the information included or incorporated by reference in Forest's 2009 Annual Report on Form 10-K under the headings "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies, Estimates, Judgments, and Assumptions."

First Quarter 2010 Summary

Forest's first quarter 2010 highlights and other significant items were as follows:

Forest reported net earnings of \$109 million in the first quarter of 2010, or \$.97 per diluted share, compared to a net loss of \$1.2 billion, or \$12.32 per diluted share, in the first quarter 2009.

Oil and gas production for the first quarter of 2010 decreased to 38 Bcfe from 49 Bcfe in the corresponding period in 2009, due primarily to non-core oil and gas property divestitures in late 2009.

Oil and gas sales increased 14% in the first quarter of 2010 to \$222 million from \$195 million in the corresponding period in 2009, due primarily to a 50% increase in average realized oil and gas prices more than offsetting lower production volumes.

Forest redeemed \$150 million of its 7³/₄% senior notes due 2014 at 101.292% of par in January 2010.

RESULTS OF OPERATIONS

Forest reported net earnings of \$109 million in the first quarter of 2010, or \$.97 per diluted share, compared to a net loss of \$1.2 billion, or \$12.32 per diluted share, in the first quarter 2009. The increase in net earnings in the first quarter 2010 compared to the first quarter 2009 was primarily due to a \$1.6 billion non-cash ceiling test write-down recorded in the first quarter 2009 which was caused by the significant decline in spot natural gas prices at March 31, 2009. Higher realized oil and gas prices in the first quarter 2010 as compared to the first quarter 2009 also contributed to the increase in net

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earnings; however, the increase in realized prices was somewhat offset by a decrease in realized gains on derivative instruments and a decrease in production between the two periods due to non-core oil and gas property divestitures in 2009. Forest's earnings before interest expense; income taxes; depletion, depreciation, and amortization expense; and certain other items ("Adjusted EBITDA"), were \$171 million and \$193 million for the three months ended March 31, 2010 and 2009, respectively. The fluctuation in Adjusted EBITDA between the two periods was primarily driven by changes in oil and gas revenues and realized gains and losses on oil and gas derivative instruments, each as discussed below. Adjusted EBITDA is not considered a performance measure under U.S. Generally Accepted Accounting Principles ("GAAP") and reference should be made to "Reconciliation of Non-GAAP Measures" at the end of this Item 2 for further explanation of this performance measure, as well as a reconciliation to the most directly comparable GAAP measure. Discussion of the components of the changes in our quarterly results follows.

Oil and Gas Production and Revenues

Oil and gas production volumes, revenues, and average sales prices by product and location for the three months ended March 31, 2010 and 2009 are set forth in the table below.

| | Three Months Ended March 31, | | | | | | | |
|-------------------------------|------------------------------|---------|---------|----------------|---------|---------|---------|----------------|
| | 2010 | | | | 2009 | | | |
| | Gas | Oil | NGLs | Total | Gas | Oil | NGLs | Total |
| | (MMcf) | (MBbls) | (MBbls) | (MMcfe) | (MMcf) | (MBbls) | (MBbls) | (MMcfe) |
| Production volumes: | | | | | | | | |
| United States | 24,107 | 502 | 677 | 31,181 | 32,120 | 937 | 810 | 42,602 |
| Canada | 4,979 | 180 | 47 | 6,341 | 5,468 | 168 | 64 | 6,860 |
| Totals | 29,086 | 682 | 724 | 37,522 | 37,588 | 1,105 | 874 | 49,462 |
| Revenues (in thousands): | | | | | | | | |
| United States | \$ 119,095 | 38,113 | 27,114 | 184,322 | 115,605 | 35,100 | 15,647 | 166,352 |
| Canada | 22,734 | 12,475 | 2,198 | 37,407 | 20,841 | 5,660 | 1,806 | 28,307 |
| Totals | \$ 141,829 | 50,588 | 29,312 | 221,729 | 136,446 | 40,760 | 17,453 | 194,659 |
| Average sales price per unit: | | | | | | | | |
| United States | \$ 4.94 | 75.92 | 40.05 | 5.91 | 3.60 | 37.46 | 19.32 | 3.90 |
| Canada | 4.57 | 69.31 | 46.77 | 5.90 | 3.81 | 33.69 | 28.22 | 4.13 |
| Totals | \$ 4.88 | 74.18 | 40.49 | 5.91 | 3.63 | 36.89 | 19.97 | 3.94 |

Net oil and gas production in the first quarter 2010 was 37.5 Bcfe, or an average of 417 MMcfe per day, a 24% decrease from 49.5 Bcfe, or an average of 550 MMcfe per day, in the first quarter 2009. The decrease in oil and gas production for the comparable three month periods was primarily due to non-core oil and gas property divestitures that occurred in late 2009. Oil and gas revenues were \$222 million in the first quarter 2010, a 14% increase as compared to \$195 million in the first quarter 2009. The increase in oil and gas revenues between the comparable three month periods was primarily due to a 50% increase in average realized sales prices partially offset by the decrease in production discussed above.

Table of Contents**Oil and Gas Production Expense**

The table below sets forth the detail of oil and gas production expense for the three months ended March 31, 2010 and 2009.

| | Three Months Ended March 31, | |
|-------------------------------------|---|---------------|
| | 2010 | 2009 |
| | (In Thousands, Except Per Mcfe Data) | |
| Production expense: | | |
| Lease operating expenses | \$ 29,102 | 41,231 |
| Production and property taxes | 11,428 | 11,695 |
| Transportation and processing costs | 4,859 | 5,244 |
| Production expense | \$ 45,389 | 58,170 |
| Production expense per Mcfe: | | |
| Lease operating expenses | \$.78 | .83 |
| Production and property taxes | .30 | .24 |
| Transportation and processing costs | .13 | .11 |
| Production expense per Mcfe | \$ 1.21 | 1.18 |

Lease operating expenses in the first quarter 2010 were \$29 million, or \$.78 per Mcfe, compared to \$41 million, or \$.83 per Mcfe, in the first quarter 2009. The \$12 million decrease in lease operating expense was due to the non-core oil and gas property divestitures that occurred during 2009 as well as cost control initiatives.

Production and property taxes, which primarily consist of severance taxes paid on the value of the oil and gas produced, generally fluctuate proportionately to our oil and gas revenues. As a percentage of oil and natural gas revenue, production and property taxes were 5.2% and 6.0% for the three months ended March 31, 2010 and 2009, respectively. Normal fluctuations occur in the percentage between periods based upon the timing of approval of incentive tax credits in Texas, changes in tax rates, and changes in the assessed values of property and equipment for purposes of ad valorem taxes.

Transportation and processing costs of \$5 million in the first quarter 2010 were consistent with the first quarter of 2009 despite the reduction in transportation and processing costs associated with the 2009 non-core property divestitures due to slightly higher processing costs in other areas.

General and Administrative Expense

The following table summarizes the components of general and administrative expense incurred during the periods indicated.

| | Three Months Ended March 31, | |
|--|---|---------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Stock-based compensation costs | \$ 8,450 | 6,373 |
| Other general and administrative costs | 22,413 | 20,157 |
| General and administrative costs capitalized | (12,110) | (10,445) |
| General and administrative expense | \$ 18,753 | 16,085 |

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General and administrative expense in the first quarter 2010 was \$19 million compared to \$16 million in the first quarter 2009. The \$3 million increase in general and administrative expense in the comparable three month periods was primarily due to increased employee compensation, including higher incentive stock-based compensation costs recognized in connection with the increase in Forest's common stock price during the first quarter of 2010. The percentage of general and administrative costs capitalized under the full cost method of accounting was consistent between the comparable periods at 39%.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization expense in the first quarter 2010 was \$52 million, or \$1.39 per Mcfe, compared to \$105 million, or \$2.11 per Mcfe, in the first quarter 2009. The per-unit decrease for the comparable three month periods was primarily due to the oil and gas property divestitures that occurred during 2009 and due to a \$1.6 billion non-cash ceiling test write-down recorded in the first quarter 2009.

Ceiling Test Write-Down of Oil and Gas Properties

In the first quarter 2009, Forest recorded a \$1.6 billion ceiling test write-down related to its United States and Canadian cost centers pursuant to the ceiling test limitation prescribed by the Securities and Exchange Commission ("SEC") for companies using the full cost method of accounting. The write-down was primarily a result of a significant decline in natural gas prices in the first quarter of 2009. The March 31, 2009 spot price for natural gas was \$3.63 per MMBtu compared to \$5.71 at December 31, 2008. Our March 31, 2010 ceiling test calculation, which was calculated using \$3.99 per MMBtu and \$70.09 per barrel, which are the average natural gas and oil prices, respectively, from the twelve months prior to March 31, 2010, did not result in a ceiling test write-down.

Interest Expense

The following table summarizes interest expense incurred during the periods indicated.

| | Three Months Ended March 31, | |
|----------------------------|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Interest costs | \$ 40,825 | 39,948 |
| Interest costs capitalized | (2,782) | (3,403) |
| Interest expense | \$ 38,043 | 36,545 |

Interest expense in the first quarter 2010 totaled \$38 million compared to \$37 million in the first quarter 2009. Although our outstanding debt decreased to \$1.9 billion as of March 31, 2010 from \$2.9 billion as of March 31, 2009, interest expense did not decrease proportionately given the fact that the majority of the over \$1 billion debt reduction was attributable to a reduction of borrowings under our bank credit facilities (which had a variable interest rate that averaged less than 2% in the first quarter of 2009).

In order to effectively reduce the concentration of fixed-rate debt anticipated after the completion of our 2009 oil and gas property divestiture program and the related reduction in outstanding debt, Forest entered into fixed-to-floating interest rate swaps under which it has swapped, as of March 31, 2010, \$500 million notional amount of 8.5% fixed-rate debt for an equal amount of variable rate debt with a weighted-average rate equal to the 1-month LIBOR plus approximately 5.9%. Forest recognized approximately \$3 million of realized gains under these interest rate swap arrangements during the first quarter of 2010. These gains are recorded as realized gains on derivatives rather than as a reduction to interest expense since Forest has not elected to use hedge accounting. See Note 8 to the Condensed Consolidated Financial Statements for more information on our interest rate derivatives.

Table of Contents**Realized and Unrealized Gains and Losses on Derivative Instruments**

The table below sets forth realized and unrealized gains and losses on derivatives recognized under "Costs, expenses, and other" in our Condensed Consolidated Statements of Operations for the periods indicated. See Note 7 and Note 8 to the Condensed Consolidated Financial Statements for more information on our derivative instruments.

| | Three Months Ended March 31, | |
|---|---|---------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Realized losses (gains) on derivatives, net: | | |
| Oil | \$ 738 | (10,449) |
| Gas | (7,186) | (60,816) |
| Interest | (3,521) | (524) |
| Subtotal realized (gains) on derivatives, net | (9,969) | (71,789) |
| Unrealized losses (gains) on derivatives, net: | | |
| Oil | 1,553 | 5,567 |
| Gas | (81,175) | (71,351) |
| Interest | (3,620) | (1,755) |
| Subtotal unrealized (gains) on derivatives, net | (83,242) | (67,539) |
| Realized and unrealized (gains) on derivatives, net | \$ (93,211) | (139,328) |

Other, Net

The table below sets forth the components of "Other, net" in our Condensed Consolidated Statements of Operations for the periods indicated.

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Unrealized foreign currency exchange (gains) losses, net | \$ (6,650) | 3,539 |
| Unrealized losses on other investments, net | | 2,327 |
| (Gain) on debt extinguishment, net | (4,578) | |
| Other, net | 1,395 | 3,217 |
| | \$ (9,833) | 9,083 |

Foreign Currency Exchange

Unrealized foreign currency exchange gains and losses relate to outstanding intercompany indebtedness and advances, which are denominated in U.S. dollars, between Forest Oil Corporation and our wholly-owned Canadian subsidiary.

Unrealized Loss on Other Investments

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Unrealized losses on other investments relate to fair value adjustments to the shares of Pacific Energy Resources, Ltd. ("PERL") common stock and the zero coupon senior subordinated note from PERL due 2014, which were received as a portion of the total consideration for the sale of our Alaska assets in August 2007. See Note 7 to the Condensed Consolidated Financial Statements for more information on these investments.

Table of Contents*Gain on Debt Extinguishment*

The net gain on debt extinguishment relates to the redemption in January 2010 of all \$150 million of our 7³/₄% senior notes due 2014 at 101.292% of par. The net gain was driven by the write-off of unamortized deferred gains on the termination of interest rate swaps. See Note 4 to the Condensed Consolidated Financial Statements.

Current and Deferred Income Tax

| | Three Months Ended March 31, | |
|-------------------------|---|------------------|
| | 2010 | 2009 |
| | (In Thousands, Except Percentages) | |
| Current income tax | \$ 717 | 1,268 |
| Deferred income tax | 58,694 | (291,615) |
| Total income tax | \$ 59,411 | (290,347) |
| Effective tax rate | 35% | 20% |

Our combined U.S. and Canadian effective tax rate generally approximates 35% to 36% but will fluctuate based on the percentage of pre-tax income generated in the U.S. versus Canada. Our effective income tax rate was approximately 35% for the three months ended March 31, 2010 and 20% for the three months ended March 31, 2009. The significant variance between the effective tax rate in 2009 of 20% and our normal effective rate was primarily due to the valuation allowance placed on a portion of our deferred tax assets in the United States as of March 31, 2009. See Note 9 to the Condensed Consolidated Financial Statements for a reconciliation of our income taxes at the statutory U.S. federal rate to income taxes at our effective rate for each period presented.

LIQUIDITY AND CAPITAL RESOURCES

Our exploration, development, and acquisition activities require us to make significant operating and capital expenditures. Historically, we have used cash flow from operations and our bank credit facilities as our primary sources of liquidity. To fund large and other exceptional transactions, such as acquisitions and debt refinancing transactions, we have looked to the private and public capital markets as another source of financing and, as market conditions have permitted, we have engaged in asset monetization transactions.

Changes in the market prices for oil and natural gas directly impact our level of cash flow generated from operations. For the quarter ended March 31, 2010, natural gas accounted for approximately 78% of our total oil and gas production and, as a result, our operations and cash flow are more sensitive to fluctuations in the market price for natural gas than to fluctuations in the market price for oil. We employ a commodity hedging strategy as an attempt to moderate the effects of wide fluctuations in commodity prices on our cash flow. As of April 30, 2010, we had hedged, via commodity swaps and collar instruments, approximately 86 Bcfe of our total 2010 production and 7 Bcfe of our total 2011 oil production. This level of hedging will provide a measure of certainty of the cash flow that we will receive for a portion of our production in 2010 and 2011. For further information concerning our derivative contracts, see Item 3 "Quantitative and Qualitative Disclosures about Market Risk - Commodity Price Risk" below.

The other primary source of liquidity is our combined U.S. and Canadian credit facilities, which had an aggregate borrowing base of \$1.3 billion as of March 31, 2010. These facilities are used to fund daily operations and to fund acquisitions and refinance debt, as needed and if available. The credit facilities are secured by a portion of our assets and mature in June 2012. See "*Bank Credit Facilities*"

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below for further details. We had no amounts drawn on our credit facilities as of March 31, 2010 and April 30, 2010.

The public and private capital markets have historically served as our primary source of financing to fund large acquisitions and other exceptional transactions. In the past, we have issued debt and equity in both the public and private capital markets. For example, in February 2009, we issued \$600 million principal amount of 8¹/₂% senior notes due 2014 in a private offering for net proceeds of \$560 million and in May 2009, we issued approximately 14 million shares of common stock for net proceeds of \$256 million. Our ability to access the debt and equity capital markets on economical terms is affected by general economic conditions, the domestic and global financial markets, the credit ratings assigned to our debt by independent credit rating agencies, our operational and financial performance, the value and performance of our equity and debt securities, prevailing commodity prices, and other macroeconomic factors outside of our control.

We also have engaged in asset dispositions as a means of generating additional cash to fund expenditures and enhance our financial flexibility. For example, during 2009, we sold certain non-strategic assets for approximately \$1.1 billion, a portion of which proceeds were used to pay off the outstanding balances under our credit facilities in 2009 and redeem our 7³/₄% senior notes due 2014 in January 2010.

We believe that our current cash and cash equivalents, cash flows provided by operating activities, and \$1.3 billion of funds available under our credit facilities will be sufficient to fund our normal recurring operating needs, anticipated capital expenditures, and our contractual obligations. However, if our revenue and cash flow decrease in the future as a result of a deterioration in domestic and global economic conditions or a significant decline in commodity prices, we may elect to reduce our planned capital expenditures. We believe that this financial flexibility to adjust our spending levels will provide us with sufficient liquidity to meet our financial obligations should economic conditions deteriorate.

Bank Credit Facilities

Our bank credit facilities consist of a \$1.65 billion U.S. credit facility (the "U.S. Facility") with a syndicate of banks led by JPMorgan Chase Bank, N.A., and a \$150 million Canadian credit facility (the "Canadian Facility," and together with the U.S. Facility, the "Credit Facilities") with a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch. The Credit Facilities will mature in June 2012.

Our availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"), which was \$1.3 billion as of March 31, 2010. We currently have allocated \$1.155 billion to the borrowing base under the U.S. Facility and \$145 million to the borrowing base under the Canadian Facility. The determination of the Global Borrowing Base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of our oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders' customary practices for oil and gas loans. The available borrowing amount under the Credit Facilities could increase or decrease based on such redetermination. In April 2010, the lenders reaffirmed the borrowing base at \$1.3 billion and the next redetermination is expected to occur in the third or fourth quarter of 2010. In addition to the semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the Global Borrowing Base redetermined. The Global Borrowing Base is also subject to automatic adjustments if certain events occur.

From time to time, we engage in other transactions with a number of the lenders under the Credit Facilities. Such lenders or their affiliates may serve as underwriters or initial purchasers of our debt and equity securities, act as agent or directly purchase our production, or serve as counterparties to our commodity and interest rate derivative agreements. As of April 30, 2010, our primary derivative

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counterparties are lenders and their affiliates, with six such lenders accounting for approximately 76 Bcfe, or 88% of our 2010 hedged production and approximately 7 Bcfe, or 100% of our 2011 hedged production. Our obligations under our existing derivative agreements with our lenders are secured by the security documents executed by the parties under our Credit Facilities. See Part 3 "Quantitative and Qualitative Disclosures about Market Risk Commodity Price Risk," below for additional details concerning our derivative arrangements.

As of March 31, 2010 and April 30, 2010, there were no outstanding borrowings under our Credit Facilities. The Company had used the Credit Facilities for approximately \$2.4 million in letters of credit at March 31, 2010.

Historical Cash Flow

Net cash provided by operating activities, net cash used by investing activities, and net cash (used) provided by financing activities for the three months ended March 31, 2010 and 2009 were as follows:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Net cash provided by operating activities | \$ 65,678 | 148,366 |
| Net cash (used) by investing activities | (182,572) | (316,877) |
| Net cash (used) provided by financing activities | (136,511) | 167,182 |

Net cash provided by operating activities is primarily affected by production volumes, commodity prices, the effects of settlements of our derivative contracts, and changes in working capital. The decrease in net cash provided by operating activities in the three months ended March 31, 2010 compared to the same period of 2009 was primarily due to an increased investment in net operating assets (i.e., working capital) in 2010 as compared to 2009. Discretionary cash flow, which is a non-GAAP liquidity measure that management uses to evaluate cash flow from operations before changes in working capital, was \$133 million and \$157 million for the three months ended March 31, 2010 and 2009, respectively. The decrease in discretionary cash flow between the two periods was primarily driven by a net reduction in oil and gas revenues and realized gains and losses on oil and gas derivative instruments. Reference should be made to "Reconciliation of Non-GAAP Measures" at the end of this Item 2 for further explanation of this non-GAAP liquidity measure.

Net cash used by investing activities is primarily comprised of expenditures for the exploration and development of oil and gas properties net of proceeds from the dispositions of oil and gas properties. The decrease in net cash used by investing activities in the three months ended March 31, 2010 compared to the same period of 2009 was primarily due to less cash paid for capital expenditures in the

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first quarter 2010. See "Capital Expenditures" below. The major components of cash used by investing activities for the three months ended March 31, 2010 and 2009 were as follows:

| | Three Months Ended March 31, | |
|--|---|---------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Exploration and development costs ⁽¹⁾ | \$ (191,754) | (301,329) |
| Proceeds from sale of assets | 10,766 | 6,292 |
| Acquisition of other fixed assets | (1,584) | (21,840) |
| Net cash (used) by investing activities | \$ (182,572) | (316,877) |

(1) Cash paid for exploration and development costs as reflected in the Condensed Consolidated Statements of Cash Flows differs from the reported capital expenditures in the "Capital Expenditures" table below due to the timing of when the capital expenditures are incurred and when the actual cash payment is made.

Net cash used by financing activities in the three months ended March 31, 2010 included the redemption of the 7³/₄% senior notes for \$152 million. Net cash provided by financing activities in the three months ended March 31, 2009 included the issuance of the 8¹/₂% senior notes for net proceeds of \$560 million, offset by net repayments of bank borrowings of \$369 million.

Capital Expenditures

Expenditures for property exploration and development were as follows:

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Exploration and development costs: | | |
| Direct costs | \$ 260,359 | 238,953 |
| Overhead capitalized | 12,110 | 10,445 |
| Interest capitalized | 2,782 | 3,403 |
| Total capital expenditures ⁽¹⁾ | \$ 275,251 | 252,801 |

(1) Total capital expenditures include cash expenditures, accrued expenditures, and non-cash capital expenditures including stock-based compensation capitalized under the full cost method of accounting. Total capital expenditures also include estimated discounted asset retirement obligations of \$(9.6) million and \$2.5 million for the three months ended March 31, 2010 and 2009, respectively.

FORWARD-LOOKING STATEMENTS

The information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than statements of historical or present facts, that address activities, events, outcomes, and other matters that Forest plans, expects, intends, assumes, believes, budgets, predicts, forecasts, projects, estimates, or anticipates (and other similar expressions) will, should, or may occur in the future. Generally, the words "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "may," "will," "could," "should," "future," "potential," "continue," variations of such words, and similar expressions identify

forward-looking statements. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

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These forward-looking statements appear in a number of places in this report and include statements with respect to, among other things:

estimates of our oil and natural gas reserves;

estimates of our future oil and natural gas production, including estimates of any increases or decreases in our production;

our future financial condition and results of operations;

our future revenues, cash flows, and expenses;

our access to capital and our anticipated liquidity;

our future business strategy and other plans and objectives for future operations;

our outlook on oil and gas prices;

the amount, nature, and timing of future capital expenditures, including future development costs;

our ability to access the capital markets to fund capital and other expenditures;

our assessment of our counterparty risk and the ability of our counterparties to perform their future obligations; and

the impact of federal, state, and local political, regulatory, and environmental developments in the United States and certain foreign locations where we conduct business operations.

We believe the expectations and forecasts reflected in our forward-looking statements are reasonable, but we can give no assurance that they will prove to be correct. We caution you that these forward-looking statements can be affected by inaccurate assumptions and are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, and sale of oil and gas. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading "Risk Factors" included or incorporated in Part I of our 2009 Annual Report on Form 10-K.

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report, and we undertake no obligation to update this information to reflect events or circumstances after the filing of this report with the SEC, except as required by law. All forward-looking statements, expressed or implied, included in this Form 10-Q and attributable to Forest are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we may make or persons acting on our behalf may issue.

RECONCILIATION OF NON-GAAP MEASURES

Adjusted EBITDA

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In addition to reporting net earnings as defined under GAAP, Forest also presents adjusted earnings before interest, taxes, depreciation, depletion, and amortization ("Adjusted EBITDA"), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings (loss) before interest expense, income taxes, depreciation, depletion, and amortization, as well as other items such as ceiling test write-downs of oil and gas properties, unrealized gains on derivative instruments, unrealized foreign

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currency exchange (gains) losses, unrealized losses on other investments, accretion of asset retirement obligations, and other items presented in the table below. Adjusted EBITDA does not represent and should not be considered an alternative to GAAP measurements, such as net earnings (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating interest, income taxes, depreciation, depletion, amortization, and other items, Forest believes the result is a useful measure across time in evaluating its fundamental core operating performance. Management also uses Adjusted EBITDA to manage its business, including in preparing its annual operating budget and financial projections. Forest believes that Adjusted EBITDA is also useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in similar industries. As indicated, Adjusted EBITDA does not include interest expense on borrowed money or depletion and depreciation expense on capital assets or the payment of income taxes, which are necessary elements of Forest's operations. Because Adjusted EBITDA does not account for these and other expenses, its utility as a measure of Forest's operating performance has material limitations. Because of these limitations, Forest's management does not view Adjusted EBITDA in isolation and also uses other measurements, such as net earnings and revenues to measure operating performance. The following table provides a reconciliation of net earnings (loss), the most directly comparable GAAP measure, to Adjusted EBITDA for the periods presented.

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Net earnings (loss) | \$ 109,162 | (1,177,773) |
| Income tax expense (benefit) | 59,411 | (290,347) |
| Unrealized (gains) on derivative instruments, net | (83,242) | (67,539) |
| Unrealized foreign currency exchange (gains) losses, net | (6,650) | 3,539 |
| Unrealized losses on other investments, net | | 2,327 |
| Interest expense | 38,043 | 36,545 |
| (Gain) on debt extinguishment, net | (4,578) | |
| Accretion of asset retirement obligations | 1,839 | 2,038 |
| Ceiling test write-down of oil and gas properties | | 1,575,843 |
| Depreciation, depletion, and amortization | 52,312 | 104,552 |
| Stock-based compensation | 4,654 | 3,947 |
| Adjusted EBITDA | \$ 170,951 | 193,132 |

Discretionary Cash Flow

In addition to reporting cash provided by operating activities as defined under GAAP, Forest also presents discretionary cash flow, which is a non-GAAP liquidity measure. Discretionary cash flow consists of cash provided by operating activities before changes in working capital items. Management uses discretionary cash flow as a measure of liquidity and believes it provides useful information to investors because it assesses cash flow from operations for each period before changes in working capital, which fluctuates due to the timing of collections of receivables and the settlements of liabilities. This measure does not represent the residual cash flow available for discretionary expenditures, since Forest has mandatory debt service requirements and other non-discretionary expenditures that are not deducted from the measure. The following table provides a reconciliation of cash provided by operating

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activities, the most directly comparable GAAP measure, to discretionary cash flow for the periods presented.

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (In Thousands) | |
| Net cash provided by operating activities | \$ 65,678 | 148,366 |
| Changes in working capital: | | |
| Accounts receivable | 5,055 | (43,280) |
| Other current assets | 2,874 | (10,136) |
| Accounts payable and accrued liabilities | 66,493 | 89,982 |
| Accrued interest and other current liabilities | (6,813) | (28,426) |
| Discretionary cash flow | \$ 133,287 | 156,506 |

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including the effects of adverse changes in commodity prices, interest rates, and foreign currency exchange rates as discussed below.

Commodity Price Risk

We produce and sell natural gas, crude oil, and natural gas liquids for our own account in the United States and Canada. As a result, our financial results are affected when prices for these commodities fluctuate. Such effects can be significant. In order to reduce the impact of fluctuations in commodity prices, or to protect the economics of property acquisitions, we make use of an oil and gas hedging strategy. Under our hedging strategy, we enter into commodity swaps, collars, and basis swaps with counterparties who, in general, are participants in our credit facilities. These arrangements, which are based on prices available in the financial markets at the time the contracts are entered into, are settled in cash and do not require physical deliveries of hydrocarbons.

Swaps

In a typical commodity swap agreement, we receive the difference between a fixed price per unit of production and a price based on an agreed upon published, third-party index if the index price is lower than the fixed price. If the index price is higher, we pay the difference. By entering into swap agreements, we effectively fix the price that we will receive in the future for the hedged production. Our current swaps are settled in cash on a monthly basis. As of March 31, 2010, we had entered into the following swaps:

| | Swaps | | | | | | |
|----------------------------|-------------------------------|--|--|----------------------------|--|--|--|
| | Natural Gas (NYMEX HH) | | | Oil (NYMEX WTI) | | | |
| Remaining Swap Term | Bbtu per Day | Weighted Average Hedged Price per MMBtu | Fair Value (In Thousands) | Barrels per Day | Weighted Average Hedged Price per Bbl | Fair Value (In Thousands) | |
| | | | | | | | |
| April 2010 - December 2010 | 200 | \$ 6.28 | \$ 110,289 | 3,000 | \$ 76.06 | \$ (7,299) | |

Subsequent to March 31, 2010, through April 30, 2010, we entered into an additional gas swap covering 10 Bbtu per day for the period May 2010 through December 2010 at a hedged price of \$4.505 per MMBtu.

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Collars

Forest also enters into costless collar agreements with third parties. A collar agreement is similar to a swap agreement, except that we receive the difference between the floor price and the index price only if the index price is below the floor price and we pay the difference between the ceiling price and the index price only if the index price is above the ceiling price. As of March 31, 2010, we had entered into the following collars:

| Oil Collars (NYMEX WTI) | | | | |
|----------------------------|--------------------|---|-------------|------------------------------|
| Remaining Collar Term | Barrels Per Day | Weighted Average Hedged Floor and Ceiling Price | | Fair Value (In Thousands) |
| | | per Bbl | | |
| April 2010 - December 2010 | 2,000 | \$ | 60.00/98.50 | \$ (696) |
| Calendar 2011 | 2,000 | | 75.00/92.80 | (1,284) |

Subsequent to March 31, 2010, through April 30, 2010, we entered into an additional oil collar covering 1,000 barrels per day for Calendar 2011 at a hedged floor and ceiling price per barrel of \$75.00 and \$105.00, respectively.

Basis Swaps

Forest also uses basis swaps in connection with natural gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the natural gas production is sold. As of March 31, 2010, we had entered into the following basis swaps:

| Basis Swaps | | | | | |
|----------------------------|----------------------|-----------------|---|--------|------------------------------|
| Remaining Swap Term | Index | Bbtu Per Day | Weighted Average Hedged Price Differential | | Fair Value (In Thousands) |
| | | | per MMBtu | | |
| April 2010 - December 2010 | Centerpoint | 30 | \$ | (.95) | \$ (5,983) |
| April 2010 - December 2010 | Houston Ship Channel | 50 | | (.29) | (3,512) |
| April 2010 - December 2010 | Mid Continent | 60 | | (1.04) | (13,946) |
| April 2010 - December 2010 | NGPL TXOK | 40 | | (.44) | (3,336) |

The estimated fair value of all our commodity derivative instruments based on various inputs, including published forward prices, at March 31, 2010 was a net asset of approximately \$74.2 million.

Interest Rate Risk

Forest periodically enters into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within its debt portfolio. As of March 31, 2010, we had entered into the following interest rate swaps:

| Interest Rate Swaps | | | | | |
|---------------------|---|-----------------------------------|--------------------------------------|------------|---------------------------------|
| Remaining Swap Term | Notional Amount (In Thousands) | Weighted Average Floating Rate | Weighted Average Fixed Rate | | Fair Value (In Thousands) |
| | | | April 2010 - February 2014 | \$ 500,000 | |

In addition to the interest rate swaps, we periodically enter into interest rate swaptions that enable the counterparties to exercise options to enter into interest rate swaps with us in exchange for premiums paid to us. The premiums received on these swaptions are amortized as realized gains on derivatives over the terms of the related swaptions. We enter into these interest rate swaptions because

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our targeted floating interest rates are not attainable at the time in the interest rate swap market, yet premiums are available from counterparties for the option to swap our 8.5% fixed rate for the floating rates we had targeted. The table below sets forth our outstanding interest rate swaption as of March 31, 2010.

| Option Term | Swap Term | Interest Rate Swaption | | Floating Rate | Fixed Rate | Fair Value (In Thousands) |
|---------------------|---------------------|---------------------------------|--------------------------------|--------------------------|------------|---------------------------|
| | | Premium Received (In Thousands) | Notional Amount (In Thousands) | | | |
| Jan 2010 - Apr 2010 | May 2010 - Feb 2014 | \$ 350 | \$ 100,000 | 3 month LIBOR + 5.50% | 8.50% | \$ (89) |

In April 2010, the interest rate swaption in the table above was unexercised and we entered into an additional interest rate swaption as set forth in the table below.

| Option Term | Swap Term | Interest Rate Swaption | | Floating Rate | Fixed Rate |
|--------------------------|---------------------|---------------------------------|--------------------------------|--------------------------|------------|
| | | Premium Received (In Thousands) | Notional Amount (In Thousands) | | |
| April 2010 - August 2010 | Aug 2010 - Feb 2014 | \$ 634 | \$ 100,000 | 3 month LIBOR + 5.75% | 8.50% |

The estimated fair value of all our interest rate derivative instruments was approximately \$3.0 million as of March 31, 2010.

Derivative Fair Value Reconciliation

The table below sets forth the changes that occurred in the fair values of our open derivative contracts during the three months ended March 31, 2010, beginning with the fair value of our derivative contracts on December 31, 2009. It has been our experience that commodity prices are subject to large fluctuations, and we expect this volatility to continue. Due to the volatility of oil and natural gas prices, the estimated fair values of our commodity derivative instruments are subject to large fluctuations from period to period. Actual gains and losses recognized related to our commodity derivative instruments will likely differ from those estimated at March 31, 2010 and will depend exclusively on the price of the commodities on the specified settlement dates provided by the derivative contracts.

| | Fair Value of Derivative Contracts | | |
|---------------------------------|------------------------------------|---------------|---------|
| | Commodity | Interest Rate | Total |
| | (In Thousands) | | |
| As of December 31, 2009 | \$ (5,389) | (596) | (5,985) |
| Premiums received | | (350) | (350) |
| Net increase in fair value | 86,070 | 7,458 | 93,528 |
| Net contract (gains) recognized | (6,448) | (3,521) | (9,969) |
| As of March 31, 2010 | \$ 74,233 | 2,991 | 77,224 |

Table of Contents**Interest Rates on Borrowings**

The following table presents principal amounts and related interest rates by year of maturity for Forest's debt obligations at March 31, 2010.

| | 2011 | 2013 | 2014 | 2019 | Total |
|--|-------------------------------|-------|---------|-----------|-----------|
| | (Dollar Amounts in Thousands) | | | | |
| Long-term debt: | | | | | |
| Fixed rate | \$ 285,000 | 112 | 600,000 | 1,000,000 | 1,885,112 |
| Coupon interest rate | 8.00% | 7.00% | 8.50% | 7.25% | 7.76% |
| Effective interest rate ⁽¹⁾ | 7.25% | 7.50% | 9.47% | 7.24% | 7.95% |

(1) The effective interest rates on the senior notes differ from the coupon interest rates due to the amortization of related discounts or premiums on the notes. The effective interest rate on the 8% senior notes due 2011 is further reduced from the coupon rate as a result of amortization of deferred gains related to interest rate swaps terminated in 2002 and 2003.

Foreign Currency Exchange Risk

We conduct business in several foreign currencies and thus are subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing, and investing transactions. We have not entered into any foreign currency forward contracts or other similar financial instruments to manage this risk. Expenditures incurred relative to the foreign concessions held by Forest outside of North America have been primarily United States dollar-denominated, as have cash proceeds related to property sales and farmout arrangements. Substantially all of our Canadian revenues and costs are denominated in Canadian dollars. While the value of the Canadian dollar does fluctuate in relation to the U.S. dollar, we believe that any currency risk associated with our Canadian operations would not have a material impact on our results of operations.

Item 4. CONTROLS AND PROCEDURES*Evaluation of Disclosure Controls and Procedures*

We have established disclosure controls and procedures to ensure that material information relating to Forest and its consolidated subsidiaries is made known to the Officers who certify Forest's financial reports and the Board of Directors.

Our Chief Executive Officer, H. Craig Clark, and our Chief Financial Officer, Michael N. Kennedy, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the quarterly period ended March 31, 2010 (the "Evaluation Date"). Based on this evaluation, they believe that as of the Evaluation Date our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (i) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and (ii) is accumulated and communicated to Forest's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during our quarterly period ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Unregistered Sales of Equity Securities*

There were no sales of unregistered equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

The table below sets forth information regarding repurchases of our common stock during the first quarter 2010. The shares repurchased represent shares of our common stock that employees elected to surrender to Forest to satisfy their tax withholding obligations upon the vesting of shares of restricted stock and phantom stock units that are settled in shares. Forest does not consider this a share buyback program.

| Period | Total # of Shares Purchased | Average Price Per Share | Total # of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum # (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------------|--|--|--|--|
| January 2010 | 4,656 | \$ 23.52 | | |
| February 2010 | 112 | 26.26 | | |
| March 2010 | 1,374 | 27.54 | | |
| First Quarter Total | 6,142 | \$ 24.47 | | |

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Item 6. EXHIBITS

(a) Exhibits.

- 3.1 Restated Certificate of Incorporation of Forest Oil Corporation dated October 14, 1993, incorporated herein by reference to Exhibit 3(i) to Form 10-Q for Forest Oil Corporation for the quarter ended September 30, 1993 (File No. 0-4597).
- 3.2 Certificate of Amendment of the Restated Certificate of Incorporation, dated as of July 20, 1995, incorporated herein by reference to Exhibit 3(i)(a) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
- 3.3 Certificate of Amendment of the Certificate of Incorporation, dated as of July 26, 1995, incorporated herein by reference to Exhibit 3(i)(b) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
- 3.4 Certificate of Amendment of the Certificate of Incorporation dated as of January 5, 1996, incorporated herein by reference to Exhibit 3(i)(c) to Forest Oil Corporation Registration Statement on Form S-2 (File No. 33-64949).
- 3.5 Certificate of Amendment of the Certificate of Incorporation dated as of December 7, 2000, incorporated herein by reference to Exhibit 3(i)(d) to Form 10-K for Forest Oil Corporation for the year ended December 31, 2000 (File No. 001-13515).
- 3.6 Bylaws of Forest Oil Corporation Restated as of February 14, 2001, as amended by Amendments No. 1, No. 2, No. 3, and No. 4, incorporated herein by reference to Exhibit 3.1 to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 2008 (File No. 001-13515).
- 10.1 Forest Oil Corporation 2010 Annual Incentive Plan, incorporated herein by reference to Exhibit 10.1 to Form 8-K for Forest Oil Corporation dated February 18, 2010 (File No. 001-13515)
- 31.1* Certification of Principal Executive Officer of Forest Oil Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 31.2* Certification of Principal Financial Officer of Forest Oil Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
- 32.1+ Certification of Principal Executive Officer of Forest Oil Corporation pursuant to 18 U.S.C. §1350.
- 32.2+ Certification of Principal Financial Officer of Forest Oil Corporation pursuant to 18 U.S.C. §1350.

* Filed herewith.

+ Not considered to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 5, 2010

FOREST OIL CORPORATION
(Registrant)

By: /s/ MICHAEL N. KENNEDY

Michael N. Kennedy
*Executive Vice President and
Chief Financial Officer
(on behalf of the Registrant and as
Principal Financial Officer)*

By: /s/ VICTOR A. WIND

Victor A. Wind
*Senior Vice President, Chief Accounting Officer
and Corporate Controller
(Principal Accounting Officer)*

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Exhibit Index

- 3.1 Restated Certificate of Incorporation of Forest Oil Corporation dated October 14, 1993, incorporated herein by reference to Exhibit 3(i) to Form 10-Q for Forest Oil Corporation for the quarter ended September 30, 1993 (File No. 0-4597).
- 3.2 Certificate of Amendment of the Restated Certificate of Incorporation, dated as of July 20, 1995, incorporated herein by reference to Exhibit 3(i)(a) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
- 3.3 Certificate of Amendment of the Certificate of Incorporation, dated as of July 26, 1995, incorporated herein by reference to Exhibit 3(i)(b) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
- 3.4 Certificate of Amendment of the Certificate of Incorporation dated as of January 5, 1996, incorporated herein by reference to Exhibit 3(i)(c) to Forest Oil Corporation Registration Statement on Form S-2 (File No. 33-64949).
- 3.5 Certificate of Amendment of the Certificate of Incorporation dated as of December 7, 2000, incorporated herein by reference to Exhibit 3(i)(d) to Form 10-K for Forest Oil Corporation for the year ended December 31, 2000 (File No. 001-13515).
- 3.6 Bylaws of Forest Oil Corporation Restated as of February 14, 2001, as amended by Amendments No. 1, No. 2, No. 3, and No. 4, incorporated herein by reference to Exhibit 3.1 to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 2008 (File No. 001-13515).
- 10.1 Forest Oil Corporation 2010 Annual Incentive Plan, incorporated herein by reference to Exhibit 10.1 to Form 8-K for Forest Oil Corporation dated February 18, 2010 (File No. 001-13515)
- 31.1* Certification of Principal Executive Officer of Forest Oil Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
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