FOREST OIL CORP
Form 10-Q
May 03, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

Or

o **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** (Address of principal executive offices)	**80202** (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. ý Yes o 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). ý Yes o No

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 27, 2011 there were 113,636,861 shares of the registrant's common stock, par value $.10 per share, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FOREST OIL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Amounts)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 163,308	$ 218,145
Accounts receivable	110,747	135,730
Derivative instruments	49,219	60,182
Inventory	27,244	32,633
Other current assets	47,261	34,993
Total current assets	397,779	481,683
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of $7,908,200 and $7,813,494	2,014,109	1,850,459
Unproved	795,307	751,784
Net oil and gas properties	2,809,416	2,602,243
Other property and equipment, net of accumulated depreciation and amortization of $53,123 and $50,491	116,097	113,435
Net property and equipment	2,925,513	2,715,678
Deferred income taxes	280,652	284,021
Goodwill	257,292	256,842
Derivative instruments	9,608	8,244
Other assets	37,363	38,920
	$ 3,908,207	$ 3,785,388
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 313,988	$ 252,200
Accrued interest	34,691	23,630
Derivative instruments	71,889	36,413
Deferred income taxes		6,911
Current portion of long-term debt	286,563	287,092
Asset retirement obligations	453	561
Other current liabilities	21,024	22,567

Total current liabilities	728,608	629,374
Long-term debt	1,583,701	1,582,280
Asset retirement obligations	87,598	86,752
Derivative instruments	4,709	
Deferred income taxes	61,037	57,560
Other liabilities	77,160	76,635
Total liabilities	2,542,813	2,432,601
Shareholders' equity:		
Preferred stock, none issued and outstanding		
Common stock, 113,625,400 and 113,594,788 shares issued and outstanding	11,363	11,359
Capital surplus	2,691,987	2,684,269
Accumulated deficit	(1,428,235)	(1,424,905)
Accumulated other comprehensive income	90,279	82,064
Total shareholders' equity	1,365,394	1,352,787
	$ 3,908,207	$ 3,785,388

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, 2011	Three Months Ended March 31, 2010
Revenues:		
Oil, natural gas, and NGL sales	$ 202,571	$ 221,729
Interest and other	564	136
Total revenues	203,135	221,865
Costs, expenses, and other:		
Lease operating expenses	31,857	29,102
Production and property taxes	12,209	11,428
Transportation and processing costs	7,276	4,859
General and administrative	19,034	18,753
Depreciation, depletion, and amortization	67,563	52,312
Interest expense	37,880	38,043
Realized and unrealized losses (gains) on derivative instruments, net	36,246	(93,211)
Other, net	(3,883)	(7,994)
Total costs, expenses, and other	208,182	53,292
Earnings (loss) before income taxes	(5,047)	168,573
Income tax	(1,717)	59,411
Net earnings (loss)	$ (3,330)	$ 109,162
Basic earnings (loss) per common share	$ (.03)	$ .97
Diluted earnings (loss) per common share	$ (.03)	$ .97

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				Accumulated Other	Total
	Shares	Amount	Capital Surplus	Accumulated Deficit	Comprehensive Income	Shareholders' Equity
Balances at December 31, 2010	113,595	$ 11,359	$ 2,684,269	$ (1,424,905)	$ 82,064	$ 1,352,787
Exercise of stock options	8	1	156			157
Employee stock purchase plan	13	1	419			420
Restricted stock issued, net of cancellations	15	2	(2)			
Amortization of stock-based compensation			7,346			7,346
Other, net	(6)		(201)			(201)
Comprehensive earnings:						
Net loss				(3,330)		(3,330)
Unfunded postretirement benefits, net of tax					289	289
Foreign currency translation					7,926	7,926
Total comprehensive earnings						4,885
Balances at March 31, 2011	113,625	$ 11,363	$ 2,691,987	$ (1,428,235)	$ 90,279	$ 1,365,394

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, 2011	Three Months Ended March 31, 2010
Operating activities:		
Net earnings (loss)	$ (3,330)	$ 109,162
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation, depletion, and amortization	67,563	52,312
Deferred income tax	(1,717)	58,694
Unrealized losses (gains) on derivative instruments, net	49,784	(83,242)
Unrealized foreign currency exchange gains, net	(7,820)	(6,650)
Stock-based compensation expense	4,486	4,654
Accretion of asset retirement obligations	1,724	1,839
Other, net	1,955	(3,482)
Changes in operating assets and liabilities:		
Accounts receivable	25,823	(5,055)
Other current assets	1,191	(2,874)
Accounts payable and accrued liabilities	(3,664)	(66,493)
Accrued interest and other current liabilities	9,956	6,813
Net cash provided by operating activities	145,951	65,678
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, and leasehold acquisition costs	(217,110)	(191,754)
Other fixed assets	(11,125)	(1,584)
Proceeds from sales of assets	12,017	10,766
Net cash used by investing activities	(216,218)	(182,572)
Financing activities:		
Proceeds from bank borrowings	36,822	7,875
Repayments of bank borrowings	(36,822)	(7,875)
Redemption of $7^3/_4$% senior notes		(151,938)
Change in bank overdrafts	14,932	13,003
Other, net	374	2,424
Net cash provided (used) by financing activities	15,306	(136,511)
Effect of exchange rate changes on cash	124	(38)
Net decrease in cash and cash equivalents	(54,837)	(253,443)
Cash and cash equivalents at beginning of period	218,145	467,221
Cash and cash equivalents at end of period	$ 163,308	$ 213,778
Cash paid during the period for:		
Interest	$ 26,295	$ 29,218
Income taxes	53	64,048

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Forest Oil Corporation ("Forest" or the "Company") is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, natural gas, and natural gas liquids ("NGLs") 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. Forest is active in several of the major exploration and producing areas in the United States and in Canada and has exploratory and development interests in two other foreign countries.

In December 2010, Forest announced its intention to separate its Canadian operations through an initial public offering ("IPO") of up to 19.9% of the common stock of its wholly-owned subsidiary, Lone Pine Resources Inc. ("Lone Pine"), which will be the holding company of the Canadian operations, followed by a distribution of the remaining shares of Lone Pine held by Forest to its shareholders. Lone Pine intends to use a portion of the net proceeds from the IPO to pay approximately $50 million to Forest. In addition, Lone Pine intends to use the remaining net proceeds from the IPO and borrowings under its credit facility to repay all of its outstanding indebtedness to Forest. Forest expects the IPO to occur in the second quarter of 2011 and the spin-off of the remaining shares of Lone Pine is expected to occur approximately four months after the IPO; however, Forest will retain the right to decide whether to consummate the spin-off at its discretion.

Basis of Presentation

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest and its consolidated subsidiaries. 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, 2011 and the results of its operations, its cash flows, and changes in its shareholders' equity for the periods presented. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in the price of oil, natural gas, and natural gas liquids and the impact the prices have on our revenues and fair values of our derivative instruments.

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 2011 financial statement presentation.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION (Continued)

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, 2010, previously filed with the Securities and Exchange Commission ("SEC").

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

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. 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 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. Performance units issued under Forest's stock incentive plans do not participate in dividends in their current form. Holders of performance units participate in dividends paid during the performance units' vesting period only after the performance units vest with common shares being earned by the holders of the performance units. Performance units may vest with no common shares being earned, depending on Forest's shareholder return over the performance units' vesting period in relation to the shareholder returns of specified peers. See Note 3 for more information on Forest's stock-based incentive awards. In summary, 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.

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 (e.g. stock options, unvested restricted stock grants, unvested phantom stock units that may be settled in shares, and unvested performance units). No potential common shares shall be included in the computation of any diluted per share amount when a net loss exists. No potential common shares were included in the calculation of diluted loss per share for the three months ended March 31, 2011 as their inclusion would have an antidilutive effect. 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.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

	Three Months Ended March 31,	
	2011	2010
	(In Thousands, Except Per Share Amounts)	
Net earnings (loss)	$ (3,330)	$ 109,162
Net earnings attributable to participating securities		(1,962)
Net earnings (loss) attributable to common stock for basic earnings per share	(3,330)	107,200
Adjustment for liability-classified stock-based compensation awards		26
Net earnings (loss) for diluted earnings per share	$ (3,330)	$ 107,226
Weighted average common shares outstanding during the period for basic earnings per share	111,343	110,416
Dilutive effects of potential common shares		586
Weighted average common shares outstanding during the period, including the effects of dilutive potential common shares, for diluted earnings per share	111,343	111,002
Basic earnings (loss) per common share	$ (.03)	$ .97
Diluted earnings (loss) per common share	$ (.03)	$ .97

Comprehensive Earnings

Comprehensive earnings is a term used to refer to net earnings (loss) plus other comprehensive income. Other comprehensive income 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 for the three months ended March 31, 2011 and 2010 are net foreign currency gains related to the translation of the assets and liabilities of Forest's Canadian operations and changes in unfunded postretirement benefits.

FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

The components of comprehensive earnings are as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In Thousands)	
Net earnings (loss)	$ (3,330)	$ 109,162
Other comprehensive income:		
Foreign currency translation gains	7,926	9,142
Unfunded postretirement benefits, net of tax	289	395
Total comprehensive earnings	$ 4,885	$ 118,699

(3) STOCK-BASED COMPENSATION

The table below sets forth total stock-based compensation recorded during the three months ended March 31, 2011 and 2010, and the remaining unamortized amounts and weighted average amortization period as of March 31, 2011.

	Stock Options	Restricted Stock	Performance Units	Phantom Stock Units	Total[1]
			(In Thousands)		
Three months ended March 31, 2011:					
Total stock-based compensation costs	$ 163	$ 6,369	$ 671	$ 1,318	$ 8,521
Less: stock-based compensation costs capitalized	(71)	(2,591)	(192)	(625)	(3,479)
Stock-based compensation costs expensed	$ 92	$ 3,778	$ 479	$ 693	$ 5,042
Unamortized stock-based compensation costs	$ 134	$ 21,999	$ 5,364	$ 7,944[2]	$ 35,441
Weighted average amortization period remaining	.2 years	1.9 years	2.0 years	1.7 years	1.8 years
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

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(1) The Company also maintains an employee stock purchase plan (which is not included in the table) under which $.1 million of compensation cost was recognized for each of the three month periods ended March 31, 2011 and 2010.

(2)

Based on the closing price of the Company's common stock on March 31, 2011.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

Stock Options

The following table summarizes stock option activity in the Company's stock-based compensation plans for the three months ended March 31, 2011.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)[(1)]	Number of Options Exercisable
Outstanding at January 1, 2011	1,327,695	$ 21.67	$ 22,531	1,283,232
Granted				
Exercised	(7,610)	20.63	121	
Cancelled				
Outstanding at March 31, 2011	1,320,085	$ 21.68	$ 21,998	1,275,622

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock, as of the date outstanding or exercised, exceeds the exercise price of the option.

Restricted Stock, Performance Stock Units, and Phantom Stock Units

The following table summarizes the restricted stock, performance stock unit, and phantom stock unit activity in the Company's stock-based compensation plans for the three months ended March 31, 2011.

	Restricted Stock			Performance Units			Phantom Stock Units		
	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)	Number of Units[(1)]	Weighted Average Grant Date Fair Value	Vest Date Fair Value (In Thousands)
Unvested at January 1, 2011	2,272,321	$ 32.71		264,500	$ 31.63		510,609	$ 24.79	
Awarded	19,735	37.75							
Vested	(16,638)	46.62	$ 622			$	(362)	45.38	$ 14
Forfeited	(4,410)	27.96					(525)	17.63	
Unvested at March 31, 2011	2,271,008	$ 32.66		264,500	$ 31.63		509,722	$ 24.78	

(1) Of the unvested units of phantom stock at March 31, 2011, 270,985 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 238,737 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements. Of the 362 phantom stock units that vested during the three months ended March 31, 2011, 300 units were settled in shares of common stock and 62 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, 2011				December 31, 2010			
	Principal	Unamortized Premium (Discount)	Other(1)	Total	Principal	Unamortized Premium (Discount)	Other(1)	Total
	(In Thousands)							
Credit Facilities	$	$	$	$	$	$	$	$
8% Senior Notes due 2011(2)	285,000	969	594	286,563	285,000	1,292	800	287,092
7% Senior Subordinated Notes due 2013	12			12	12			12
$8^1/_2$% Senior Notes due 2014	600,000	(16,774)		583,226	600,000	(18,210)		581,790
$7^1/_4$% Senior Notes due 2019	1,000,000	463		1,000,463	1,000,000	478		1,000,478
Total debt	1,885,012	(15,342)	594	1,870,264	1,885,012	(16,440)	800	1,869,372
Less: current portion of debt(2)	(285,000)	(969)	(594)	(286,563)	(285,000)	(1,292)	(800)	(287,092)
Long-term portion of debt	$ 1,600,012	$ (16,311)	$	$ 1,583,701	$ 1,600,012	$ (17,732)	$	$ 1,582,280

(1) Represents the unamortized portion of deferred gains realized upon termination of interest rate swaps in 2002 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) Due December 2011.

Bank Credit Facilities

As of March 31, 2011, 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, 2011, there were no outstanding borrowings under the Credit Facilities.

Forest's availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"). As of March 31, 2011, 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 2011, the lenders reaffirmed the borrowing base at $1.3 billion, which will be effective until Lone Pine's IPO, at which time the borrowing base will be redetermined. 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.

FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT (Continued)

On March 18, 2011, Lone Pine, as parent, and Canadian Forest Oil Ltd. ("CFOL"), as borrower, both wholly-owned subsidiaries of Forest, entered into a new stand-alone credit facility totaling CDN$500 million with a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch (the "New Canadian Credit Facility"). The borrowing base for the New Canadian Credit Facility is currently CDN$350 million. The operative provisions of the New Canadian Credit Facility will not become effective until the closing of Lone Pine's previously announced IPO, at which time the New Canadian Credit Facility will replace CFOL's existing credit facility. The New Canadian Credit Facility will be collateralized by CFOL's assets. CFOL will be required to mortgage, and grant a security interest in, 75% of the present value of the proved oil and gas properties and related assets of CFOL and its subsidiary. CFOL is required to, and will, pledge the stock of its subsidiary to the lenders to secure the New Canadian Credit Facility. Under certain circumstances, CFOL could be obligated to pledge additional assets as collateral. From the IPO until the distribution of the remaining shares of Lone Pine held by Forest to Forest's shareholders (the "Spin-off"), Forest will guarantee the obligations of CFOL under the New Canadian Credit Agreement. Prior to the IPO, Forest and CFOL expect to enter into an amendment to the existing credit facilities of Forest and CFOL providing for the termination of CFOL's existing credit facility in connection with the completion of the IPO and the amendment or waiver of certain covenants under Forest's existing credit facility to permit the completion of the IPO and the Spin-off. Forest expects that such amendment will provide for the reduction of Forest's existing global borrowing base to approximately $1.155 billion at the time of the termination of CFOL's existing credit facility and the completion of the IPO.

(5) PROPERTY AND EQUIPMENT

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, 2011 and 2010, Forest capitalized $13.4 million and $12.1 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, 2011 and 2010, the Company capitalized $2.2 million and $2.8 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) PROPERTY AND EQUIPMENT (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 under the full cost method of accounting. The 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, 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.

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.

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, 2011 and 2010.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
	(In Thousands)	
Asset retirement obligations at beginning of period	$ 87,313	$ 93,303
Accretion expense	1,724	1,839
Liabilities incurred	422	945
Liabilities settled	(1,087)	(151)
Disposition of properties	(367)	(513)
Revisions of estimated liabilities	(325)	(10,555)
Impact of foreign currency exchange rate	371	385
Asset retirement obligations at end of period	88,051	85,253
Less: current asset retirement obligations	(453)	(3,006)
Long-term asset retirement obligations	$ 87,598	$ 82,247

(7) FAIR VALUE MEASUREMENTS

The Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2011 are set forth in the table below.

Description	Using Significant Other Observable Inputs (Level 2)[1]
	(In Thousands)
Assets:	
Derivative instruments[2]	
Commodity	$ 43,242
Interest rate	15,585
Total assets	$ 58,827
Liabilities:	
Derivative instruments[2]	
Commodity	$ 76,598
Interest rate	
Total liabilities	$ 76,598

(1) 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 its derivative instruments under the Level 2 hierarchy.

(2) 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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

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.

The fair values and carrying amounts of the Company's financial instruments are summarized below as of the dates indicated.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value(1)	Carrying Amount	Fair Value(1)
	(In Thousands)			
Assets:				
Cash and cash equivalents	$ 163,308	$ 163,308	$ 218,145	$ 218,145
Derivative instruments	58,827	58,827	68,426	68,426
Liabilities:				
Derivative instruments	76,598	76,598	36,413	36,413
8% senior notes due 2011	286,563	297,648	287,092	300,658
7% senior subordinated notes due 2013	12	12	12	12
8$^1/_2$% senior notes due 2014	583,226	666,750	581,790	660,000
7$^1/_4$% senior notes due 2019	1,000,463	1,050,000	1,000,478	1,022,670

(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 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, 2011.

Commodity Swaps and Collars

	Natural Gas (NYMEX HH)		Oil (NYMEX WTI)		NGLs (OPIS Refined Products)	
Remaining Swap Term	**Bbtu Per Day**	**Weighted Average Hedged Price per MMBtu**	**Barrels Per Day**	**Weighted Average Hedged Price per Bbl**	**Barrels Per Day**	**Weighted Average Hedged Price per Bbl**
Swaps:						
April 2011 - December 2011	150	$ 5.48	1,000	$ 85.00	5,000	$ 38.15
Calendar 2012	85	5.25			2,000	45.22
Collars:						
April 2011 - December 2011			3,000	75.00/90.20(1)		

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

In connection with several natural gas swaps Forest has entered into, Forest granted option instruments (several commodity swaptions and one oil call option) to the natural gas swap counterparties in exchange for Forest receiving premium hedged prices on the natural gas swaps. The table below sets forth the outstanding options as of March 31, 2011 (as of April 27, 2011, none of the options in the table have been exercised by the counterparties).

Commodity Options

			Natural Gas (NYMEX HH)		Oil (NYMEX WTI)	
Instrument	**Option Expiration**	**Underlying Swap Term**	**Underlying Swap Bbtu Per Day**	**Underlying Swap Weighted Average Hedged Price per MMBtu**	**Underlying Swap Barrels Per Day**	**Underlying Swap Hedged Price per Bbl**
Gas Swaptions	December 2011	Calendar 2012	50	$ 5.28		$
Oil Swaptions	December 2011	Calendar 2012			3,000	90.00
Oil Swaption	December 2012	Calendar 2013			1,000	120.00
Oil Call Option	Monthly in 2011	Monthly in 2011			1,000	90.00

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 Consolidated Statement of Operations. The table below sets forth Forest's outstanding fixed-to-floating interest rate swaps as of March 31, 2011.

Interest Rate Swaps

Remaining Swap Term

	Notional Amount (In Thousands)	Weighted Average Floating Rate	Weighted Average Fixed Rate
April 2011 - February 2014	$ 500,000	1 month LIBOR + 5.89%	8.50%

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

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

	March 31, 2011	December 31, 2010
	(In Thousands)	
Assets:		
Commodity derivatives:		
Current assets: derivative instruments	$ 38,617	$ 49,415
Derivative instruments	4,625	
Interest rate derivatives:		
Current assets: derivative instruments	10,602	10,767
Derivative instruments	4,983	8,244
Total assets	58,827	68,426
Liabilities:		
Commodity derivatives:		
Current liabilities: derivative instruments	71,889	36,413
Derivative instruments	4,709	
Total liabilities	76,598	36,413
Net derivative fair value	$ (17,771)	$ 32,013

The table below summarizes the amount of derivative instrument gains and losses reported in the Condensed Consolidated Statements of Operations as "Realized and unrealized losses (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,	
	2011	2010
	(In Thousands)	
Commodity derivatives:		
Realized gains	$ (10,568)	$ (6,448)
Unrealized losses (gains)	46,358	(79,622)
Interest rate derivatives:		
Realized gains	(2,970)	(3,521)
Unrealized losses (gains)	3,426	(3,620)
Realized and unrealized losses (gains) on derivative instruments, net	$ 36,246	$ (93,211)

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

Due to the volatility of natural gas and liquids 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.

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. As of March 31, 2011, all of the derivative counterparties are lenders, 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 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.

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 Forest, the fair value of which was $12.3 million at March 31, 2011. 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, 2011, Forest owed a net derivative liability to seven counterparties, the fair value of which was $30.1 million. If the netting provisions of the ISDA Master Agreements did not exist, at March 31, 2011, Forest would be exposed to a risk of loss of $58.8 million under its derivative agreements and Forest's derivative counterparties would be exposed to a risk of loss of $76.6 million.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted which, as part of a broader financial regulatory reform, includes derivatives reform that may impact our business. Congress delegated many of the details of the Dodd-Frank Act to federal regulatory agencies, which are in the process of writing and implementing new rules. Forest is monitoring the impact, if any, that the Dodd-Frank Act and related rules will have on our existing derivative transactions under the Company's outstanding ISDA Master Agreements and Schedules, as well as Forest's ability to enter into such transactions and agreements in the future.

(9) 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, 2011	Three Months Ended March 31, 2010
	(In Thousands)	
Unrealized foreign currency exchange gains, net	$ (7,820)	$ (6,650)
Accretion of asset retirement obligations	1,724	1,839
Gain on debt extinguishment, net		(4,578)
Other, net	2,213	1,395