FOREST OIL CORP
Form 10-Q
August 07, 2009

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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 June 30, 2009

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	**25-0484900**
(State or other jurisdiction of incorporation or organization)	(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. 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 definition 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 Smaller reporting company o
(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). o Yes ý No

As of July 31, 2009 there were 112,245,174 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 Data)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,496	2,205
Accounts receivable	98,413	157,226
Derivative instruments	149,437	169,387
Other investments		2,327
Inventory	72,463	78,683
Other current assets	62,253	63,221
Total current assets	388,062	473,049
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of $7,292,382 and $5,502,782	2,125,957	3,449,510
Unproved	867,841	964,027
Net oil and gas properties	2,993,798	4,413,537
Other property and equipment, net of accumulated depreciation and amortization of $46,865 and $37,260	119,855	99,627
Net property and equipment	3,113,653	4,513,164
Deferred income taxes	163,948	
Goodwill	254,319	253,646
Derivative instruments	3,666	4,608
Other assets	48,730	38,331
	$ 3,972,378	5,282,798
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 168,747	424,941
Accrued interest	25,625	7,143
Derivative instruments	22,508	1,284
Deferred income taxes	40,976	54,583
Asset retirement obligations	4,368	5,852
Other current liabilities	21,812	27,608
Total current liabilities	284,036	521,411
Long-term debt	2,706,442	2,735,661
Asset retirement obligations	91,438	91,139
Derivative instruments	13,817	2,600
Deferred income taxes		185,587

Other liabilities	69,865	73,488
Total liabilities	3,165,598	3,609,886
Shareholders' equity:		
Preferred stock, none issued and outstanding		
Common stock, 112,254,269 and 97,039,751 shares issued and outstanding	11,225	9,704
Capital surplus	2,623,182	2,354,903
Accumulated deficit	(1,869,925)	(729,293)
Accumulated other comprehensive income	42,298	37,598
Total shareholders' equity	806,780	1,672,912
	$ 3,972,378	5,282,798

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
	(In Thousands, Except Per Share Amounts)			
Revenues:				
Oil and gas sales	$ 181,630	515,078	376,289	891,665
Interest and other	435	1,353	644	2,444
Total revenues	182,065	516,431	376,933	894,109
Costs, expenses, and other:				
Lease operating expenses	38,036	38,413	79,267	75,978
Production and property taxes	11,791	24,148	23,486	44,199
Transportation and processing costs	5,322	4,641	10,566	9,566
General and administrative	15,649	19,832	31,734	39,120
Depreciation and depletion	68,137	126,584	172,689	242,151
Accretion of asset retirement obligations	2,143	1,967	4,181	3,751
Ceiling test write-down of oil and gas properties			1,575,843	
Interest expense	43,175	27,979	79,720	55,836
Realized and unrealized losses (gains) on derivative instruments, net	32,781	377,822	(106,547)	523,698
Other, net	(6,107)	(797)	2,976	11,054
Total costs, expenses, and other	210,927	620,589	1,873,915	1,005,353
Loss before income taxes	(28,862)	(104,158)	(1,496,982)	(111,244)
Income tax:				
Current	237	4,000	1,505	3,978
Deferred	(66,240)	(40,140)	(357,855)	(42,472)
Total income tax	(66,003)	(36,140)	(356,350)	(38,494)
Net earnings (loss)	$ 37,141	(68,018)	(1,140,632)	(72,750)
Basic earnings (loss) per common share	$ ..36	(.78)	(11.58)	(.83)
Diluted earnings (loss) per common share	$ .36	(.78)	(11.58)	(.83)

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
				(In Thousands)		
Balances at December 31, 2008	97,040	$ 9,704	2,354,903	(729,293)	37,598	1,672,912
Common stock issued, net of offering costs	14,375	1,438	254,815			256,253
Exercise of stock options	1		11			11
Employee stock purchase plan	78	8	873			881
Restricted stock issued, net of cancellations	768	77	(77)			
Amortization of stock-based compensation			13,334			13,334
Restricted stock redeemed and other	(8)	(2)	(677)			(679)
Comprehensive loss:						
Net loss				(1,140,632)		(1,140,632)
Unfunded postretirement benefits, net of tax					668	668
Foreign currency translation					4,032	4,032
Total comprehensive loss						(1,135,932)
Balances at June 30, 2009	112,254	$ 11,225	2,623,182	(1,869,925)	42,298	806,780

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In Thousands)	
Operating activities:		
Net loss	$ (1,140,632)	(72,750)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and depletion	172,689	242,151
Accretion of asset retirement obligations	4,181	3,751
Stock-based compensation expense	8,184	9,273
Unrealized losses on derivative instruments, net	52,978	461,853
Ceiling test write-down of oil and gas properties	1,575,843	
Deferred income tax	(357,855)	(42,472)
Unrealized foreign currency exchange (gains) losses, net	(5,886)	2,315
Unrealized losses on other investments, net	2,327	7,367
Other, net	2,707	(2,152)
Changes in operating assets and liabilities:		
Accounts receivable	61,161	(66,692)
Other current assets	15,475	(21,588)
Accounts payable and accrued liabilities	(114,476)	(12,781)
Accrued interest and other current liabilities	11,226	(18,007)
Net cash provided by operating activities	287,922	490,268
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, and acquisition costs	(441,680)	(789,303)
Other fixed assets	(29,611)	(12,069)
Proceeds from sales of assets	29,703	52,367
Other, net		1,036
Net cash used by investing activities	(441,588)	(747,969)
Financing activities:		
Proceeds from bank borrowings	587,190	1,360,178
Repayments of bank borrowings	(1,193,634)	(1,107,917)
Issuance of $8\frac{1}{2}$% senior notes, net of issuance costs	559,767	
Issuance of $7\frac{1}{4}$% senior notes, net of issuance costs		247,188
Redemption of 8% senior notes		(265,000)
Repurchases of 7% senior subordinated notes	(970)	(2,960)
Proceeds from common stock offering, net of offering costs	256,253	
Proceeds from the exercise of options and from employee stock purchase plan	892	15,041
Change in bank overdrafts	(48,986)	17,376
Other, net	(3,428)	(5,051)
Net cash provided by financing activities	157,084	258,855
Effect of exchange rate changes on cash	(127)	(28)
Net increase in cash and cash equivalents	3,291	1,126
Cash and cash equivalents at beginning of period	2,205	9,685

Cash and cash equivalents at end of period	$	5,496	10,811
Cash paid during the period for:			
Interest	$	64,224	66,754
Income taxes		5,489	3,352

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, which are of a normal recurring nature, have been made which are necessary for a fair presentation of the financial position of Forest at June 30, 2009, the results of its operations for the three and six months ended June 30, 2009 and 2008, and its cash flows for the six months ended June 30, 2009 and 2008. 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. Management has evaluated events and transactions occurring after the balance sheet date through August 7, 2009, the date that the financial statements were issued.

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 2009 financial statement presentation.

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, 2008, previously filed with the Securities and Exchange Commission.

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

Earnings (Loss) per Share

Basic earnings (loss) per share is computed 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.

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment*

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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)

Transactions Are Participating Securities ("FSP EITF 03-6-1"), which addressed whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share under the two-class method. FSP EITF 03-6-1 was effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Accordingly, Forest adopted this pronouncement as of January 1, 2009. All prior period earnings per share data presented have been adjusted retrospectively to conform to the provisions of this pronouncement.

Restricted stock issued under Forest's stock incentive plans has the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock. 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 must now be allocated to both common stock and these participating securities in the basic earnings per share calculation. 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, consequently, the adoption of FSP EITF 03-6-1 will have no impact on Forest's basic earnings per share for those periods. In periods of net earnings, however, basic earnings per share calculated under the two-class method will likely be lower than it would had it been prior to the adoption of FSP EITF 03-6-1.

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 six months ended June 30, 2009 and the three and six months ended June 30, 2008 as their inclusion would have an antidilutive effect. Unvested restricted stock grants and unvested participating phantom stock units were not included in the calculation of diluted earnings per share for the three months ended June 30, 2009 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 (LOSS) (Continued)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In Thousands, Except Per Share Amounts)			
Net earnings (loss)	$ 37,141	(68,018)	(1,140,632)	(72,750)
Net earnings attributable to participating securities	(638)			
Net earnings (loss) attributable to common stock for basic earnings per share	36,503	(68,018)	(1,140,632)	(72,750)
Adjustment for liability classified stock-based compensation awards	(164)			
Adjustment to net earnings attributable to participating securities	2			
Net earnings (loss) for diluted earnings per share	$ 36,341	(68,018)	(1,140,632)	(72,750)
Weighted average common shares outstanding during the period	101,314	87,717	98,458	87,506
Dilutive effects of potential common shares	279			
Weighted average common shares outstanding, including the effects of dilutive potential common shares	101,593	87,717	98,458	87,506
Basic earnings (loss) per common share	$ ..36	(.78)	(11.58)	(.83)
Diluted earnings (loss) per common share	$ .36	(.78)	(11.58)	(.83)

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 and six months ended June 30, 2009 and 2008 are foreign currency 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Net earnings (loss)	$37,141	(68,018)	(1,140,632)	(72,750)
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	16,858	2,308	4,032	(11,982)

Unfunded postretirement benefits, net of tax	632		668	
Total comprehensive earnings (loss)	$ 54,631	(65,710)	(1,135,932)	(84,732)

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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 and six months ended June 30, 2009 and 2008, and the remaining unamortized amounts and the weighted average amortization period remaining as of June 30, 2009.

		Stock Options	Restricted Stock	Phantom Stock Units	Total[1]
			(In Thousands)		
Three months ended June 30, 2009:					
Total stock-based compensation costs	$	60	6,664	377	7,101
Less: stock-based compensation costs capitalized		(27)	(2,741)	(198)	(2,966)
Stock-based compensation costs expensed	$	33	3,923	179	4,135
Six months ended June 30, 2009:					
Total stock-based compensation costs	$	337	12,648	301	13,286
Less: stock-based compensation costs capitalized		(152)	(5,087)	(153)	(5,392)
Stock-based compensation costs expensed	$	185	7,561	148	7,894
Unamortized stock-based compensation costs as of June 30, 2009	$	1,861	47,066	5,081[2]	54,008
Weighted average amortization period remaining		1.5 years	2.0 years	2.6 years	2.0 years
Three months ended June 30, 2008:					
Total stock-based compensation costs	$	694	5,756	3,165	9,615
Less: stock-based compensation costs capitalized		(301)	(2,083)	(1,948)	(4,332)
Stock-based compensation costs expensed	$	393	3,673	1,217	5,283
Six months ended June 30, 2008:					
Total stock-based compensation costs	$	1,529	10,192	3,818	15,539
Less: stock-based compensation costs capitalized		(648)	(3,536)	(2,341)	(6,525)
Stock-based compensation costs expensed	$	881	6,656	1,477	9,014

(1) The Company also maintains an employee stock purchase plan (which is not included in the table) under which $.2 million and $.3 million of compensation cost was recognized for the three and six months ended June 30, 2009, respectively, and $.1 million and $.3 million of compensation cost was recognized for the three and six months ended June 30, 2008, respectively.

(2) Based on the closing price of the Company's common stock on June 30, 2009.

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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 six months ended June 30, 2009.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)[1]	Number of Shares Exercisable
Outstanding at January 1, 2009	2,097,267	$ 21.13	$ 376	1,898,316
Granted				
Exercised	(1,115)	10.01	4	
Cancelled	(86,037)	22.18		
Outstanding at June 30, 2009	2,010,115	21.09	10	1,904,457

(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.

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 six months ended June 30, 2009.

	Restricted Stock		Phantom Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2009	1,490,795	$ 52.31	163,954	$ 51.10
Awarded	792,083	18.13	320,628	17.97
Vested	(43,495)	50.84	(3,429)	19.45
Forfeited	(24,250)	52.62	(17,075)	48.40
Unvested at June 30, 2009	2,215,133	40.11	464,078	28.54

Of the unvested units of phantom stock at June 30, 2009, 228,500 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 235,578 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT

Components of debt are as follows:

	June 30, 2009				December 31, 2008			
	Principal	Unamortized Premium (Discount)	Other[3]	Total	Principal	Unamortized Premium (Discount)	Other[3]	Total
	(In Thousands)							
U.S. Credit Facility	$ 550,000			550,000	1,190,000			1,190,000
Canadian Credit Facility	134,989			134,989	94,415			94,415
8% Senior Notes due 2011	285,000	3,229	2,060	290,289	285,000	3,875	2,475	291,350
7% Senior Subordinated Notes due 2013[1]	112	(2)		110	1,112	(25)		1,087
8½% Senior Notes due 2014[2]	600,000	(26,964)		573,036				
7¾% Senior Notes due 2014	150,000	(1,154)	8,610	157,456	150,000	(1,273)	9,492	158,219
7¼% Senior Notes due 2019	1,000,000	562		1,000,562	1,000,000	590		1,000,590
Total debt	$2,720,101	(24,329)	10,670	2,706,442	2,720,527	3,167	11,967	2,735,661

(1) In June 2009, the Company repurchased $1.0 million in principal amount of 7% senior subordinated notes due 2013 at 97% of par value.

(2) In February 2009, the Company issued $600 million in principal amount of 8½% senior notes due 2014 at 95.15% of par for proceeds of $559.8 million (net of related initial purchaser discounts) and used the net proceeds to pay down outstanding balances on the Company's U.S. credit facility.

(3) Represents the unamortized portion of gains realized upon termination of interest rate swaps 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.

Bank Credit Facilities

Effective as of March 16, 2009, Forest entered into the Second Amendment (the "Second Amendment") to its second amended and restated combined credit agreements dated as of June 6, 2007 that amended certain definitions and covenants of the credit agreements, including the total debt outstanding-to-EBITDA ratio. The second amended and restated combined credit agreements 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.

Forest's availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"). As a result of issuing $600 million of 8½% senior notes due 2014 in February 2009, Forest's borrowing base was lowered from $1.8 billion to $1.62 billion effective February 17, 2009. As a result of the adjustment to the Global Borrowing Base, Forest reallocated amounts under the U.S. Facility and Canadian Facility and currently has allocated $1.47 billion to the U.S. Facility and $150 million to the Canadian Facility. On March 16, 2009, Forest announced that its bank group reaffirmed Forest's $1.62 billion Global Borrowing Base and $1.8 billion nominal amount related to the Credit Facilities. The next redetermination of the borrowing base is scheduled to be in the fourth quarter of 2009.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT (Continued)

At June 30, 2009, there were outstanding borrowings of $550.0 million under the U.S. Facility at a weighted average interest rate of 1.4%, and there were outstanding borrowings of $135.0 million under the Canadian Facility at a weighted average interest rate of 2.0%. The Company also had used the Credit Facilities for $2.8 million in letters of credit, leaving an unused borrowing amount under the Credit Facilities of $932.3 million at June 30, 2009.

8 1/2% Senior Notes Due 2014

On February 17, 2009, Forest issued $600 million in principal amount of 8 1/2% senior notes due 2014 (the "8 1/2% Notes") at 95.15% of par for net proceeds of $559.8 million, after deducting initial purchaser discounts. Proceeds from the 8 1/2% Notes were used to pay down outstanding balances on the Company's U.S. Facility. The 8 1/2% Notes are jointly and severally guaranteed by Forest Oil Permian Corporation, a wholly-owned subsidiary of Forest, on an unsecured basis. Interest is payable on February 15 and August 15 of each year, beginning August 15, 2009. The 8 1/2% Notes will mature on February 15, 2014. Forest may redeem up to 35% of the 8 1/2% Notes at any time prior to February 15, 2012, on one or more occasions, with the proceeds from certain equity offerings at a redemption price equal to 108.5% of the principal amount, plus accrued but unpaid interest.

Forest may also redeem the 8 1/2% Notes in whole or in part and at any time, at a "make-whole" redemption price equal to the greater of (i) 100% of the principal amount of the 8 1/2% Notes to be redeemed or (ii) the sum of the remaining scheduled payments of principal and interest on the 8 1/2% Notes discounted to the date of redemption at an applicable Treasury yield rate plus 0.50%, plus, in either case, accrued but unpaid interest.

7% Senior Subordinated Notes Due 2013

On June 19, 2009, Forest repurchased $1.0 million in principal amount of 7% senior subordinated notes due 2013 at 97% of par value.

(5) SHAREHOLDERS' EQUITY

In May 2009, the Company issued 14,375,000 shares of common stock at a price of $18.25 per share. Net proceeds from this offering were $256.3 million after deducting underwriting discounts and commissions and offering expenses. Forest used the net proceeds from the offering to repay a portion of the outstanding borrowings under its U.S. credit facility.

(6) 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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) OIL AND GAS PROPERTIES (Continued)

June 30, 2009 and 2008, Forest capitalized $11.6 million and $14.8 million of general and administrative costs (including stock-based compensation), respectively. During the six months ended June 30, 2009 and 2008, Forest capitalized $22.1 million and $26.9 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 June 30, 2009 and 2008, the Company capitalized $3.4 million and $5.5 million, respectively, of interest costs attributed to unproved properties. During the six months ended June 30, 2009 and 2008, the Company capitalized $6.8 million and $10.7 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, and geographic and geologic data obtained relating to the properties. 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.

Pursuant to full cost accounting rules, the Company must perform a ceiling test each quarter on its proved oil and gas assets within each separate cost center. 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. As a result of this limitation on capitalized costs, in the first quarter of 2009, the Company recorded a non-cash ceiling test write-down of oil and gas property costs of $1.377 billion in its United States cost center and $199.0 million in its Canada cost center. Accordingly, the accompanying condensed consolidated financial statements reflect a total non-cash ceiling test write-down of oil and gas properties of $1.576 billion for the six months ended June 30, 2009.

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.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) 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 liability 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.

The following table summarizes the activity for Forest's asset retirement obligations for the six months ended June 30, 2009 and 2008.

	Six Months Ended June 30,	
	2009	**2008**
	(In Thousands)	
Asset retirement obligations at beginning of period	$96,991	90,505
Accretion expense	4,181	3,751
Liabilities incurred	2,334	6,353
Liabilities settled	(2,153)	(1,292)
Disposition of properties	(2,138)	(3,692)
Liabilities assumed		1,096
Revisions of estimated liabilities	(3,922)	(1,945)
Impact of foreign currency exchange rate	513	(483)
Asset retirement obligations at end of period	95,806	94,293
Less: current asset retirement obligations	(4,368)	(2,555)
Long-term asset retirement obligations	$91,438	91,738

(8) FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). This statement clarifies the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company adopted the provisions of SFAS 157 as of January 1, 2008 for all financial and nonfinancial assets and liabilities recognized or disclosed at fair value on a recurring basis. The Company has also adopted SFAS 157 as it relates to all nonfinancial assets and liabilities that are not recognized or disclosed on a recurring basis (e.g. those measured at fair value in a business combination, the initial recognition of asset retirement obligations, and impairments of goodwill and other long-lived assets) as of January 1, 2009 pursuant to the provisions of FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*. The adoption of SFAS 157 did not materially impact the Company's financial position, results of operations, or cash flow.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include: 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.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) FAIR VALUE MEASUREMENTS (Continued)

As of June 30, 2009, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis, including: (i) the Company's commodity and interest rate derivative instruments and (ii) other investments, 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") and 10 million shares of PERL common stock (the "PERL Shares").

The Company used the income approach in determining the fair value of its derivative instruments, utilizing present value techniques for valuing its swaps and basis swaps and option-pricing models for valuing its collars. 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 these inputs are observable, either directly or indirectly; therefore, the Company's derivative instruments are included within the Level 2 fair value hierarchy. The Company used the income approach in determining the fair value of the PERL Shares and Note, both of which are included within the Level 3 fair value hierarchy. The Company used its own assumptions about the assumptions that market participants would use regarding future cash flows and risk-adjusted discount rates in valuing the PERL Shares and Note. PERL filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in March 2009. The bankruptcy proceedings are still at an early stage; however, PERL has indicated that the value of its assets is less than the amount of PERL's senior unsubordinated debt. Based on these facts and circumstances, the Company estimates the fair value of the PERL Shares and Note to be zero as of June 30, 2009.

The Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2009, were as follows:

Description	Using Significant Other Observable Inputs (Level 2)	Using Significant Unobservable Inputs (Level 3)	Total
		(In Thousands)	
Assets:			
Derivative instruments	$ 153,103		153,103
Equity securities			
Debt securities			
Liabilities:			
Derivative instruments	36,325		36,325

FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) 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 and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009		2008	2009		2008
	Equity Securities	Debt Securities	Debt Securities	Equity Securities	Debt Securities	Debt Securities
	(In Thousands)					
Balance at beginning of period	$		16,069		1,670	15,023
Total gains or (losses) (realized/unrealized):						
Included in earnings			673	(657)	(1,670)	1,719
Included in other comprehensive income						
Purchases, sales, issuances, and settlements (net)						
Transfers in and/or out of Level 3[(1)]				657		
Balance at end of period	$		16,742			16,742
The amount of total gains or (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	$		(193)	(657)	(1,670)	45

(1) The Company's investment in PERL common stock was previously valued within the Level 1 fair value hierarchy until March 2009 when PERL's common stock was suspended from trading for failure to meet the continued stock exchange listing requirements. As a result, the Company's investment in the PERL common stock is now valued within the Level 3 fair value hierarchy as there is no longer an active market for this investment.

Gains and 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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) FAIR VALUE MEASUREMENTS (Continued)

and six months ended June 30, 2009 and 2008 are reported in the Condensed Consolidated Statements of Operations as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
	Equity Securities	Debt Securities	Debt Securities		Equity Securities	Debt Securities	Debt Securities	
	Other, net	Other, net	Other, net	Interest and other[1]	Other, net	Other, net	Other, net	Interest and other[1]
	(In Thousands)							
Total losses or (gains) included in earnings for the period	$		193	(866)	657	1,670	(45)	(1,674)
Change in unrealized losses or (gains) relating to assets still held at end of period	$		193		657	1,670	(45)	

(1) Represents imputed interest income on the PERL Note.

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

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Assets:				
Cash	$ 5,496	5,496	2,205	2,205
Accounts receivable	98,413	98,413	157,226	157,226
Other investments			2,327	2,327
Derivative instruments	153,103	153,103	173,995	173,995
Liabilities:				
Derivative instruments	36,325	36,325	3,884	3,884
Credit facilities	684,989	684,989	1,284,415	1,284,415
8% senior notes due 2011	290,289	285,713	291,350	256,500
7% senior subordinated notes due 2013	110	106	1,087	912
$8^1/_2$% senior notes due 2014	573,036	592,500		
$7^3/_4$% senior notes due 2014	157,456	142,875	158,219	123,000
$7^1/_4$% senior notes due 2019	1,000,562	897,500	1,000,590	780,000

The Company used various assumptions and methods in estimating the fair values of its financial instruments. The carrying amounts of cash and cash equivalents and accounts receivable approximated their fair value due to the short maturity of these instruments. The carrying amount of the Company's credit facilities approximated fair value, because the interest rates on the credit facilities are variable. The fair values of the Company's senior notes and senior subordinated notes were estimated based on quoted market prices, if available, or quoted market prices of comparable instruments. The fair values of the Company's derivative instruments and other investments are discussed above.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) DERIVATIVE INSTRUMENTS

Commodity Derivatives

Forest periodically enters into derivative instruments such as swap, basis swap, and collar agreements in order to provide a measure of stability to Forest's cash flows in an environment of volatile oil and gas prices 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 in earnings rather than deferring such amounts in accumulated other comprehensive income included in shareholders' equity, as would be done if the derivatives were designated as hedging instruments and cash flow hedge accounting were utilized.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ("SFAS 161"). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement was effective for fiscal years and interim periods beginning after November 15, 2008. Accordingly, Forest has adopted this pronouncement as of January 1, 2009.

The table below sets forth Forest's outstanding commodity swaps and collars as of June 30, 2009.

	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:				
July 2009 - October 2009	210[(1)]	$ 7.33	4,500	$ 69.01
November 2009 - December 2009	160[(1)]	8.24	4,500	69.01
Calendar 2010	150	6.36	1,500	72.95
Costless Collars:				
July 2009 - December 2009	40	$ 7.31/9.76[(2)]		$

(1) 10 Bbtu per day is subject to a $6.00 written put.

(2) Represents weighted average hedged floor and ceiling price per MMBtu.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) DERIVATIVE INSTRUMENTS (Continued)

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 June 30, 2009.

	Index	Bbtu Per Day	Weighted Average Hedged Price Differential per MMBtu
July 2009 - December 2009	AECO	25	$ (.65)
July 2009 - December 2009	Centerpoint	30	(.95)
July 2009 - December 2009	Houston Ship Channel	50	(.33)
July 2009 - December 2009	Mid Continent	60	(1.04)
July 2009 - December 2009	NGPL TXOK	40	(.53)
Calendar 2010	Centerpoint	30	(.95)
Calendar 2010	Houston Ship Channel	30	(.30)
Calendar 2010	Mid Continent	60	(1.04)
Calendar 2010	NGPL TXOK	40	(.44)

Subsequent to June 30, 2009, through July 31, 2009, Forest entered into additional basis swaps covering 20 Bbtu per day for Calendar 2010 at a weighted average hedged price differential of $(.28) for the Houston Ship Channel index.

Interest Rate Derivatives

Forest periodically enters into interest rate derivative agreements in an attempt to normalize the mix of fixed and floating interest rates within its debt portfolio. The table below sets forth Forest's outstanding fixed-to-floating interest rate swaps as of June 30, 2009.

Swap Term	Notional Amount (In Thousands)	Weighted Average Floating Rate	Weighted Average Fixed Rate
July 2009 - February 2014	$ 300,000	1 month LIBOR + 5.90%	8.50%

In addition to the interest rate swaps, during the six months ended June 30, 2009, Forest entered into certain interest rate swaptions, which enable the counterparties to exercise options to enter into interest rate swaps with Forest in exchange for a premium paid to Forest. The premiums received on these swaptions are amortized as realized gains on derivatives over the term of the related swaption. The interest rate swaps underlying the swaptions also exchange the 8.5% fixed interest rate on a portion of the 8$^1/_2$% Notes for a variable rate over the term of the 8$^1/_2$% Notes. Forest entered into these interest rate swaptions because its targeted floating interest rates were not attainable at that time in the interest rate swap market yet premiums were available from counterparties for the option to

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) DERIVATIVE INSTRUMENTS (Continued)

swap Forest's 8.5% fixed rate for the floating rates it had targeted. The table below sets forth Forest's outstanding interest rate swaptions as of June 30, 2009.

Option Term	Swap Term	Premiums Received (In Thousands)	Notional Amount (In Thousands)	Weighted Average Floating Rate	Weighted Average Fixed Rate
April 2009 - July 2009	July 2009 - February 2014	$ 1,065	$ 225,000	1 month LIBOR + 5.88%	8.50%
May 2009 - August 2009	August 2009 - February 2014	525	75,000	1 month LIBOR + 5.80%	8.50%

Subsequent to June 30, 2009, through July 31, 2009, a counterparty exercised its option, resulting in the interest rate swap as set forth in the table below.

Swap Term	Notional Amount (In Thousands)	Floating Rate	Fixed Rate
July 2009 - February 2014	$ 125,000	1 month LIBOR + 5.90%	8.50%

Subsequent to June 30, 2009, through July 31, 2009, Forest entered into an additional interest rate swaption as set forth in the table below.

Option Term	Swap Term	Premium Received (In Thousands)	Notional Amount (In Thousands)	Floating Rate	Fixed Rate
July 2009 - October 2009	October 2009 - February 2014	$ 745	$ 100,000	1 month LIBOR + 5.60%	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 period indicated. These derivative instruments are not designated as hedging instruments under SFAS 133. For financial reporting purposes, Forest does not offset asset and liability fair value amounts recognized for derivative

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) DERIVATIVE INSTRUMENTS (Continued)

instruments with the same counterparty under its master netting arrangements. See Note 8 to the Condensed Consolidated Financial Statements for more information on our derivative instruments.

	June 30, 2009	December 31, 2008
	(In Thousands)	
Assets:		
Commodity derivatives:		
Current assets: derivative instruments	$ 149,437	169,387
Derivative instruments	3,666	4,608
Total assets	153,103	173,995
Liabilities:		
Commodity derivatives:		
Current liabilities: derivative instruments	19,255	1,284
Derivative instruments	11,352	2,600
Interest rate derivatives:		
Current liabilities: derivative instruments	3,253	
Derivative instruments	2,465	
Total liabilities	36,325	3,884
Net derivative fair value	$ 116,778	170,111

The table below summarizes the location and amount of derivative instrument gains and losses reported in the Condensed Consolidated Statements of Operations for the periods indicated. These derivative instruments are not designated as hedging instruments, as such the gains and losses are included in Costs, expenses, and other in the Condensed Consolidated Statements of Operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Commodity derivatives:				
Realized (gains) losses	$ (84,843)	57,577	(156,108)	60,956
Unrealized losses	113,399	329,144	47,615	466,574
Interest rate derivatives:				
Realized (gains) losses	(2,893)	605	(3,417)	889
Unrealized losses (gains)	7,118	(9,504)	5,363	(4,721)
Realized and unrealized losses (gains) on derivative instruments, net	$ 32,781	377,822	(106,547)	523,698

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)

(9) 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. None of these counterparties require collateral beyond that already pledged under the Credit Facilities. 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. The remaining counterparty, a purchaser of Forest's natural gas production, generally owes money to Forest and therefore does not require collateral under the ISDA Master Agreement and Schedule it has executed with Forest. The Credit Facilities are collateralized by a portion of the Company's assets. The Company is required to mortgage and grant a security interest in the greater of (i) 75% of the present value of its consolidated proved oil and gas properties or (ii) 1.875 multiplied by the allocated U.S. borrowing base. The Company is also required to and has pledged the stock of several subsidiaries to the lenders to secure the Credit Facilities. Under certain circumstances, the Company could be obligated to pledge additional assets as collateral. If Forest's corporate credit ratings assigned by Moody's and S&P improve and meet pre-established levels, the collateral requirements would cease to apply and, at the Company's request, the banks would release their liens on and security interests in the Company's properties. In addition to these collateral requirements, one of the Company's subsidiaries, Forest Oil Permian Corporation, is a subsidiary guarantor of 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 due to 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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(9) DERIVATIVE INSTRUMENTS (Continued)

particular counterparty. If all counterparties failed, we would be exposed to a risk of loss equal to this net amount owed to us, the fair value of which is $135.9 million at June 30, 2009. 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 agreement. At June 30, 2009, Forest owed a net derivative liability to seven counterparties, the fair value of which is $19.1 million.

(10) INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Federal income tax at 35% of loss before income taxes	$(10,102)	(36,455)	(523,944)	(38,935)
Change in valuation allowance for deferred tax assets	(52,680)		163,157	
State income taxes, net of federal income tax benefits	(413)	(1,968)	(14,657)	(2,288)
Effect of differing tax rates in Canada	(463)	(2,109)	11,875	(3,099)
Effect of federal, state, and foreign tax on permanent items	(977)	(897)	2,143	(172)
Adjustments for statutory rate reductions and other	(1,368)	5,289	5,076	6,000
Total income tax	$(66,003)	(36,140)	(356,350)	(38,494)

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 an additional valuation allowance of $163 million against its U.S. deferred tax assets during the six months ended June 30, 2009. The amount of the deferred tax asset considered realizable will likely change each quarter as estimates of our future book income change due to changes in expected future oil and gas prices, and these changes could be material.

(11) COSTS, EXPENSES, AND OTHER

The table below sets forth the components of Other, net within Costs, expenses, and other of the Condensed Consolidated Statement of Operations for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In Thousands)			
Unrealized foreign currency exchange (gains) losses, net	$(9,425)	(460)	(5,886)	2,315
Unrealized losses on other investments, net		276	2,327	7,367
Other, net	3,318	(613)	6,535	1,372
Other, net	$(6,107)	(797)	2,976	11,054

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) GEOGRAPHICAL SEGMENTS

At June 30, 2009, Forest conducted operations in one industry segment, that being the oil and gas exploration and production industry, 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 segment data presented below was prepared on the same basis as the Condensed Consolidated Financial Statements.

	Oil and Gas Operations							
	Three Months Ended June 30, 2009				Six Months Ended June 30, 2009			
	United States	Canada	International	Total Company	United States	Canada	International	Total Company
	(In Thousands)							
Oil and gas sales	$154,196	27,434		181,630	320,548	55,741		376,289
Costs and expenses:								
Lease operating expenses	30,166	7,870		38,036	64,868	14,399		79,267
Production and property taxes	10,974	817		11,791	21,918	1,568		23,486
Transportation and processing costs	3,346	1,976		5,322	6,385	4,181		10,566
Depletion	52,051	13,013		65,064	138,542	28,691		167,233
Ceiling test write-down of oil and gas properties					1,376,822	199,021		1,575,843
Accretion of asset retirement obligations	1,888	231	24	2,143	3,660	474	47	4,181
Segment earnings (loss)	$ 55,771	3,527	(24)	59,274	(1,291,647)	(192,593)	(47)	(1,484,287)
Capital expenditures[1]	$ 84,700	6,816	1,272	92,788	310,560	32,792	2,237	345,589
Goodwill[2]	$239,420	14,899		254,319	239,420	14,899		254,319

(1) Includes estimated discounted asset retirement obligations of $(4.1) million and $(1.6) million recorded during the three and six months ended June 30, 2009, respectively.

(2) As of June 30, 2009.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) GEOGRAPHICAL SEGMENTS (Continued)

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

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	(In Thousands)	
Segment earnings (loss)	$ 59,274	(1,484,287)
Interest and other	435	644
General and administrative expense	(15,649)	(31,734)
Administrative asset depreciation	(3,073)	(5,456)
Interest expense	(43,175)	(79,720)
Realized and unrealized (losses) gains on derivative instruments, net	(32,781)	106,547
Other, net	6,107	(2,976)
Loss before income taxes	$ (28,862)	(1,496,982)

	Oil and Gas Operations							
	Three Months Ended June 30, 2008				Six Months Ended June 30, 2008			
	United States	Canada	International	Total Company	United States	Canada	International	Total Company
	(In Thousands)							
Oil and gas sales	$433,838	81,240		515,078	749,334	142,331		891,665
Costs and expenses:								
Lease operating expenses	29,112	9,301		38,413	58,046	17,932		75,978
Production and property taxes	23,297	851		24,148	42,471	1,728		44,199
Transportation and processing costs	2,263	2,378		4,641	4,695	4,871		9,566
Depletion	101,566	23,107		124,673	193,425	45,196		238,621
Accretion of asset retirement obligations	1,624	323	20	1,967	3,099	611	41	3,751
Segment earnings (loss)	$275,976	45,280	(20)	321,236	447,598	71,993	(41)	519,550
Capital expenditures[1]	$567,595	31,540	1,669	600,804	763,334	102,715	2,574	868,623
Goodwill[2]	$248,804	16,994		265,798	248,804	16,994		265,798

(1) Includes estimated discounted asset retirement obligations of $4.7 million and $5.5 million recorded during the three and six months ended June 30, 2008, respectively.

(2) As of June 30, 2008

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) GEOGRAPHICAL SEGMENTS (Continued)

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

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
	(In Thousands)	
Segment earnings	$ 321,236	519,550
Interest and other	1,353	2,444
General and administrative expense	(19,832)	(39,120)
Administrative asset depreciation	(1,911)	(3,530)
Interest expense	(27,979)	(55,836)
Realized and unrealized losses on derivative instruments, net	(377,822)	(523,698)
Other, net	797	(11,054)
Loss before income taxes	$ (104,158)	(111,244)

The following tables set forth information regarding the Company's total assets by segment and long-lived assets by geographic area. Long-lived assets include net property and equipment and goodwill.

	Total Assets	
	June 30, 2009	December 31, 2008
	(In Thousands)	
United States	$ 3,389,041	4,476,489
Canada	503,010	726,895
International	80,327	79,414
Total assets	$ 3,972,378	5,282,798

	Long-Lived Assets	
	June 30, 2009	December 31, 2008
	(In Thousands)	
United States	$ 2,782,078	3,998,129
Canada	506,325	691,009
International	79,569	77,672
Total long-lived assets	$ 3,367,972	4,766,810

(13) CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company's 8% senior notes due 2011, $8^1/_2$% senior notes due 2014, $7^3/_4$% senior notes due 2014, and $7^1/_4$% 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 June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 on an issuer (parent company), guarantor subsidiary, non-guarantor subsidiaries, eliminating entries, and consolidated basis. Elimination entries presented are necessary to combine the entities.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(13) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
(Unaudited)
(In Thousands)

	June 30, 2009					December 31, 2008				
	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS										
Current assets:										
Cash and cash equivalents	$ 1,987	252	3,257		**5,496**	1,226	74	905		**2,205**
Accounts receivable	54,440	17,880	26,379	(286)	**98,413**	106,941	22,003	28,584	(302)	**157,226**
Other current assets	273,903	835	9,415		**284,153**	304,424	471	8,723		**313,618**
Total current assets	330,330	18,967	39,051	(286)	**388,062**	412,591	22,548	38,212	(302)	**473,049**
Property and equipment, at cost	7,567,629	1,322,737	1,562,534		**10,452,900**	7,327,978	1,259,337	1,465,891		**10,053,206**
Less accumulated depreciation, depletion, and amortization	5,418,474	974,896	945,877		**7,339,247**	4,145,061	727,858	667,123		**5,540,042**
Net property and equipment	2,149,155	347,841	616,657		**3,113,653**	3,182,917	531,479	798,768		**4,513,164**
Investment in subsidiaries	225,050			(225,050)		577,405			(577,405)	
Note receivable from subsidiary	93,052			(93,052)		93,052			(93,052)	
Deferred income taxes	208,859			(44,911)	**163,948**					
Goodwill	216,460	22,960	14,899		**254,319**	216,460	22,960	14,226		**253,646**
Due from (to) parent and subsidiaries	495,325	61,206	(556,531)			391,074	141,656	(532,730)		
Other assets	50,155	5	2,236		**52,396**	40,607	5	2,327		**42,939**
	$ 3,768,386	450,979	116,312	(363,299)	**3,972,378**	4,914,106	718,648	320,803	(670,759)	**5,282,798**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										
Accounts payable and	$ 144,134	7,269	17,630	(286)	**168,747**	338,754	27,631	58,858	(302)	**424,941**

accrued liabilities										
Other current liabilities	107,886	1,030	6,373		**115,289**	88,064	1,165	7,241		**96,470**
Total current liabilities	252,020	8,299	24,003	(286)	**284,036**	426,818	28,796	66,099	(302)	**521,411**
Long-term debt	2,571,453		134,989		**2,706,442**	2,641,246		94,415		**2,735,661**
Note payable to parent			93,052	(93,052)				93,052	(93,052)	
Other liabilities	138,133	3,365	33,622		**175,120**	128,017	3,397	35,813		**167,227**
Deferred income taxes		17,777	27,134	(44,911)		45,113	61,383	79,091		**185,587**
Total liabilities	2,961,606	29,441	312,800	(138,249)	**3,165,598**	3,241,194	93,576	368,470	(93,354)	**3,609,886**
Shareholders' equity	806,780	421,538	(196,488)	(225,050)	**806,780**	1,672,912	625,072	(47,667)	(577,405)	**1,672,912**
	$ 3,768,386	450,979	116,312	(363,299)	**3,972,378**	4,914,106	718,648	320,803	(670,759)	**5,282,798**

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(13) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands)

	Three Months Ended June 30,									
	2009					2008				
	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:										
Oil and gas sales	$ 122,634	31,156	27,840		**181,630**	348,291	33,664	133,123		**515,078**
Interest and other	6,663	91	(89)	(6,230)	**435**	7,609	267	19	(6,542)	**1,353**
Equity earnings in subsidiaries	16,346			(16,346)		(4,361)			4,361	
Total revenues	145,643	31,247	27,751	(22,576)	**182,065**	351,539	33,931	133,142	(2,181)	**516,431**
Costs, expenses, and other:										
Lease operating expenses	24,765	5,182	8,027	62	**38,036**	24,667	2,906	10,805	35	**38,413**
Other direct operating costs	12,762	2,000	2,351		**17,113**	20,845	2,313	5,631		**28,789**
General and administrative	13,161	612	1,876		**15,649**	16,048	21	3,763		**19,832**
Depreciation and depletion	46,247	10,460	13,846	(2,416)	**68,137**	83,548	6,037	37,001	(2)	**126,584**
Interest expense	39,612	2,518	4,299	(3,254)	**43,175**	24,177		7,797	(3,995)	**27,979**
Realized and unrealized losses on derivative instruments, net	25,903	6,644	234		**32,781**	276,568	54,300	46,954		**377,822**
Other, net	3,234	120	(5,003)	(2,315)	**(3,964)**	2,255	315	(22)	(1,378)	**1,170**
Total costs, expenses, and other	165,684	27,536	25,630	(7,923)	**210,927**	448,108	65,892	111,929	(5,340)	**620,589**
Earnings (loss) before income taxes	(20,041)	3,711	2,121	(14,653)	**(28,862)**	(96,569)	(31,961)	21,213	3,159	**(104,158)**
Income tax	(57,182)	(7,678)	(1,143)		**(66,003)**	(28,551)	(11,599)	4,010		**(36,140)**
Net earnings (loss)	$ 37,141	11,389	3,264	(14,653)	**37,141**	(68,018)	(20,362)	17,203	3,159	**(68,018)**

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(13) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

	Six Months Ended June 30,									
	2009					**2008**				
	Parent Company	**Guarantor Subsidiary**	**Combined Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**	**Parent Company**	**Guarantor Subsidiary**	**Combined Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Revenues:										
Oil and gas sales	$ 255,777	63,677	56,835		**376,289**	604,967	59,544	227,154		**891,665**
Interest and other	6,818	91	(35)	(6,230)	**644**	10,180	371	208	(8,315)	**2,444**
Equity earnings in subsidiaries	(294,297)			294,297		24,518			(24,518)	
Total revenues	(31,702)	63,768	56,800	288,067	**376,933**	639,665	59,915	227,362	(32,833)	**894,109**
Costs, expenses, and other:										
Lease operating expenses	53,690	10,738	14,770	69	**79,267**	48,810	6,053	21,071	44	**75,978**
Other direct operating costs	25,915	3,474	4,663		**34,052**	38,886	4,169	10,710		**53,765**
General and administrative	26,473	1,327	3,934		**31,734**	32,924	27	6,169		**39,120**
Depreciation and depletion	117,763	28,471	30,427	(3,972)	**172,689**	159,901	11,472	70,783	(5)	**242,151**
Ceiling test write-down of oil and gas properties	1,155,777	218,567	201,499		**1,575,843**					
Interest expense	71,279	4,821	9,850	(6,230)	**79,720**	48,369		15,782	(8,315)	**55,836**
Realized and unrealized (gains) losses on derivative instruments, net	(87,192)	(19,079)	(276)		**(106,547)**	415,721	78,351	29,626		**523,698**
Other, net	5,942	141	(107)	1,181	**7,157**	12,309	426	2,255	(185)	**14,805**
Total costs, expenses, and other	1,369,647	248,460	264,760	(8,952)	**1,873,915**	756,920	100,498	156,396	(8,461)	**1,005,353**
Earnings (loss) before income taxes	(1,401,349)	(184,692)	(207,960)	297,019	**(1,496,982)**	(117,255)	(40,583)	70,966	(24,372)	**(111,244)**
Income tax	(260,717)	(43,606)	(52,027)		**(356,350)**	(44,505)	(14,776)	20,787		**(38,494)**
Net earnings (loss)	$ (1,140,632)	(141,086)	(155,933)	297,019	**(1,140,632)**	(72,750)	(25,807)	50,179	(24,372)	**(72,750)**

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(13) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Six Months Ended June 30,							
	2009				2008			
	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Consolidated	Parent Company	Guarantor Subsidiary	Combined Non-Guarantor Subsidiaries	Consolidated
Operating activities:								
Net earnings (loss)	$ (846,335)	(141,086)	(153,211)	**(1,140,632)**	(97,122)	(25,807)	50,179	**(72,750)**
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:								
Depreciation and depletion	114,132	28,471	30,086	**172,689**	159,901	11,472	70,778	**242,151**
Unrealized losses on derivative instruments, net	44,484	8,373	121	**52,978**	372,879	66,355	22,619	**461,853**
Deferred income tax	(262,222)	(43,606)	(52,027)	**(357,855)**	(44,350)	(14,776)	16,654	**(42,472)**
Ceiling test write-down of oil and gas properties	1,155,777	218,567	201,499	**1,575,843**				
Other, net	17,221	167	(5,875)	**11,513**	15,886	82	4,586	**20,554**
Changes in operating assets and liabilities:								
Accounts receivable	52,501	4,123	4,537	**61,161**	(47,894)	(5,528)	(13,270)	**(66,692)**
Other current assets	16,233	(364)	(394)	**15,475**	(19,544)	127	(2,171)	**(21,588)**
Accounts payable and accrued liabilities	(85,082)	(7,730)	(21,664)	**(114,476)**	(8,238)	(633)	(3,910)	**(12,781)**
Accrued interest and other current liabilities	13,299	(267)	(1,806)	**11,226**	(16,185)	22	(1,844)	**(18,007)**
Net cash provided by operating activities	220,008	66,648	1,266	**287,922**	315,333	31,314	143,621	**490,268**
Investing activities:								
Capital expenditures for property and equipment	(332,499)	(76,685)	(62,107)	**(471,291)**	(580,537)	(8,904)	(211,931)	**(801,372)**
Other, net	19,564	3,676	6,463	**29,703**	53,379		24	**53,403**
Net cash used by investing activities	(312,935)	(73,009)	(55,644)	**(441,588)**	(527,158)	(8,904)	(211,907)	**(747,969)**
Financing activities:								
Proceeds from bank borrowings	494,000		93,190	**587,190**	1,212,000		148,178	**1,360,178**
Repayments of bank borrowings	(1,134,000)		(59,634)	**(1,193,634)**	(947,000)		(160,917)	**(1,107,917)**
Issuance of $8^{1}/_{2}$% senior notes, net of issuance costs	559,767			**559,767**				
Issuance of $7^{1}/_{4}$% senior notes, net of issuance costs					247,188			**247,188**
Redemption of 8% senior notes					(265,000)			**(265,000)**
Repurchases of 7% senior subordinated notes	(970)			**(970)**	(2,960)			**(2,960)**

Proceeds from common stock offering, net of offering costs	256,253			**256,253**				
Net activity in investments from subsidiaries	(33,961)	9,629	24,332		(59,051)	(21,745)	80,796	
Other, net	(47,401)	(3,090)	(1,031)	**(51,522)**	26,905	(877)	1,338	**27,366**
Net cash provided (used) by financing activities	93,688	6,539	56,857	**157,084**	212,082	(22,622)	69,395	**258,855**
Effect of exchange rate changes on cash			(127)	**(127)**			(28)	**(28)**
Net increase (decrease) in cash and cash equivalents	761	178	2,352	**3,291**	257	(212)	1,081	**1,126**
Cash and cash equivalents at beginning of period	1,226	74	905	**2,205**	1,189	386	8,110	**9,685**
Cash and cash equivalents at end of period	$ 1,987	252	3,257	**5,496**	1,446	174	9,191	**10,811**

(14) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers*