FOREST OIL CORP
Form 10-Q
August 06, 2010

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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, 2010

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 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 July 30, 2010 there were 113,331,476 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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 200,786	467,221
Accounts receivable	120,117	126,354
Derivative instruments	73,111	35,643
Deferred income taxes		7,108
Inventory	40,332	52,211
Other current assets	39,025	41,455
Total current assets	473,371	729,992
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of $7,607,960 and $7,511,661	1,596,818	1,316,712
Unproved	824,674	828,645
Net oil and gas properties	2,421,492	2,145,357
Other property and equipment, net of accumulated depreciation and amortization of $52,595 and $54,810	96,128	113,850
Net property and equipment	2,517,620	2,259,207
Deferred income taxes	346,134	393,061
Goodwill	255,696	255,908
Derivative instruments	15,410	556
Other assets	42,545	45,966
	$ 3,650,776	3,684,690
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 260,345	284,302
Accrued interest	23,623	25,755
Derivative instruments	17,752	41,358
Deferred income taxes	17,665	
Current portion of long-term debt		156,678
Asset retirement obligations	2,673	4,853
Other current liabilities	20,174	22,074

Total current liabilities	342,232	535,020
Long-term debt	1,867,534	1,865,836
Asset retirement obligations	83,548	88,450
Derivative instruments	3,157	826
Deferred income taxes	50,552	46,884
Other liabilities	70,115	68,520
Total liabilities	2,417,138	2,605,536
Shareholders' equity:		
Preferred stock, none issued and outstanding		
Common stock, 113,349,373 and 112,337,315 shares issued and outstanding	11,335	11,234
Capital surplus	2,667,817	2,652,689
Accumulated deficit	(1,510,010)	(1,652,426)
Accumulated other comprehensive income	64,496	67,657
Total shareholders' equity	1,233,638	1,079,154
	$ 3,650,776	3,684,690

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Per Share Amounts)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Revenues:				
Oil and gas sales	$ 207,954	181,630	429,683	376,289
Interest and other	141	435	277	644
Total revenues	208,095	182,065	429,960	376,933
Costs, expenses, and other:				
Lease operating expenses	28,422	38,036	57,524	79,267
Production and property taxes	12,487	11,791	23,915	23,486
Transportation and processing costs	6,020	5,322	10,879	10,566
General and administrative	17,781	15,649	36,534	31,734
Depreciation, depletion, and amortization	62,446	68,137	114,758	172,689
Ceiling test write-down of oil and gas properties				1,575,843
Interest expense	37,109	43,175	75,152	79,720
Realized and unrealized (gains) losses on derivative instruments, net	(25,031)	32,781	(118,242)	(106,547)
Other, net	14,549	(3,964)	6,555	7,157
Total costs, expenses, and other	153,783	210,927	207,075	1,873,915
Earnings (loss) before income taxes	54,312	(28,862)	222,885	(1,496,982)
Income tax:				
Current	4,008	237	4,725	1,505
Deferred	17,050	(66,240)	75,744	(357,855)
Total income tax	21,058	(66,003)	80,469	(356,350)
Net earnings (loss)	$ 33,254	37,141	142,416	(1,140,632)
Basic earnings (loss) per common share	$ .29	.36	1.26	(11.58)
Diluted earnings (loss) per common share	$ .29	.36	1.26	(11.58)

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

(In Thousands)

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balances at December 31, 2009	112,337	$ 11,234	2,652,689	(1,652,426)	67,657	1,079,154
Exercise of stock options	218	22	4,181			4,203
Employee stock purchase plan	37	4	772			776
Restricted stock issued, net of cancellations	877	88	(88)			
Amortization of stock-based compensation			13,960			13,960
Other, net	(120)	(13)	(3,697)			(3,710)
Comprehensive earnings:						
Net earnings				142,416		142,416
Unfunded postretirement benefits, net of tax					685	685
Foreign currency translation					(3,846)	(3,846)
Total comprehensive earnings						139,255
Balances at June 30, 2010	113,349	$ 11,335	2,667,817	(1,510,010)	64,496	1,233,638

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

	Six Months Ended June 30,	
	2010	**2009**
Operating activities:		
Net earnings (loss)	$ 142,416	(1,140,632)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation, depletion, and amortization	114,758	172,689
Ceiling test write-down of oil and gas properties		1,575,843
Deferred income tax	75,744	(357,855)
Unrealized (gains) losses on derivative instruments, net	(73,748)	52,978
Unrealized foreign currency exchange losses (gains), net	3,954	(5,886)
Unrealized losses on other investments, net		2,327
Stock-based compensation expense	9,731	8,184
Accretion of asset retirement obligations	3,748	4,181
Other, net	(708)	2,707
Changes in operating assets and liabilities:		
Accounts receivable	5,900	61,161
Other current assets	14,357	15,475
Accounts payable and accrued liabilities	(46,577)	(114,476)
Accrued interest and other current liabilities	(3,616)	11,226
Net cash provided by operating activities	245,959	287,922
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, and leasehold acquisition costs	(461,307)	(441,680)
Other fixed assets	(2,791)	(29,611)
Proceeds from sales of assets	107,198	29,703
Net cash used by investing activities	(356,900)	(441,588)
Financing activities:		
Proceeds from bank borrowings	92,480	587,190
Repayments of bank borrowings	(92,480)	(1,193,634)
Redemption of $7^3/_4$% senior notes	(151,938)	
Repurchases of 7% senior subordinated notes	(100)	(970)
Issuance of $8^1/_2$% senior notes, net of issuance costs		559,767
Proceeds from common stock offering, net of offering costs		256,253
Proceeds from the exercise of options and from employee stock purchase plan	4,979	892
Change in bank overdrafts	(2,387)	(48,986)
Other, net	(5,438)	(3,428)
Net cash (used) provided by financing activities	(154,884)	157,084
Effect of exchange rate changes on cash	(610)	(127)
Net (decrease) increase in cash and cash equivalents	(266,435)	3,291
Cash and cash equivalents at beginning of period	467,221	2,205

Cash and cash equivalents at end of period	$ 200,786	5,496
Cash paid during the period for:		
Interest	$ 77,645	64,224
Income taxes	68,048	5,489

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest Oil Corporation and its consolidated subsidiaries (collectively, "Forest" or the "Company"). In the opinion of management, all adjustments, consisting of normal recurring accruals, have been made which are necessary for a fair presentation of the financial position of Forest at June 30, 2010, the results of its operations for the three and six months ended June 30, 2010 and 2009, and its cash flows for the six months ended June 30, 2010 and 2009. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in prices received for liquids (oil, condensate, and natural gas liquids) and natural gas and other factors.

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

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

Certain amounts in the prior year financial statements have been reclassified to conform to the 2010 financial statement presentation.

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

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

Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the two-class method by dividing net earnings (loss) attributable to common stock by the weighted average number of common shares outstanding during each period. Under the treasury stock method, diluted earnings (loss) per share is computed by dividing net earnings (loss) adjusted for the effects of certain contracts that provide the issuer or holder with a choice between settlement methods by the weighted average number of common shares outstanding adjusted for the dilutive effect, if any, of potential common shares (i.e. stock options, unvested restricted stock grants, 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.

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

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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)

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 the performance units. 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.

Unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2010 as their inclusion would have an antidilutive effect. Unvested restricted stock grants and unvested participating phantom stock units that may be settled in shares 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. 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 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,	
		2010	2009	2010	2009
		(In Thousands, Except Per Share Amounts)			
Net earnings (loss)	$	33,254	37,141	142,416	(1,140,632)
Net earnings attributable to participating securities		(656)	(638)	(2,685)	
Net earnings (loss) attributable to common stock for basic earnings per share		32,598	36,503	139,731	(1,140,632)
Adjustment for liability-classified stock-based compensation awards		151	(162)	177	
Net earnings (loss) for diluted earnings per share	$	32,749	36,341	139,908	(1,140,632)
Weighted average common shares outstanding during the period for basic earnings per share		110,660	101,314	110,538	98,458
Dilutive effects of potential common shares		796	279	671	
Weighted average common shares outstanding during the period, including the effects of dilutive potential common shares, for diluted earnings per share		111,456	101,593	111,209	98,458
Basic earnings (loss) per common share	$	.29	.36	1.26	(11.58)
Diluted earnings (loss) per common share	$	.29	.36	1.26	(11.58)

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, 2010 and 2009 are foreign currency gains and losses related to the translation of the assets and liabilities of Forest's Canadian operations and changes in unfunded postretirement benefits.

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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 components of comprehensive earnings (loss) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Net earnings (loss)	$ 33,254	37,141	142,416	(1,140,632)
Other comprehensive income (loss):				
Foreign currency translation (losses) gains	(12,988)	16,858	(3,846)	4,032
Unfunded postretirement benefits, net of tax	290	632	685	668
Total comprehensive earnings (loss)	$ 20,556	54,631	139,255	(1,135,932)

(3) STOCK-BASED COMPENSATION

The table below sets forth total stock-based compensation recorded during the three and six months ended June 30, 2010 and 2009, and the remaining unamortized amounts and weighted average amortization period as of June 30, 2010.

	Stock Options	Restricted Stock[1]	Phantom Stock Units	Total[2]
	(In Thousands)			
Three months ended June 30, 2010:				
Total stock-based compensation costs	$ 8	6,633	1,261	7,902
Less: stock-based compensation costs capitalized	(3)	(2,036)	(543)	(2,582)
Stock-based compensation costs expensed	$ 5	4,597	718	5,320
Six months ended June 30, 2010:				
Total stock-based compensation costs	$ 230	13,454	2,529	16,213
Less: stock-based compensation costs capitalized	(96)	(4,727)	(1,132)	(5,955)
Stock-based compensation costs expensed	$ 134	8,727	1,397	10,258
Unamortized stock-based compensation costs	$ 631	45,983	8,426[3]	55,040
Weighted average amortization period remaining	1.0 year	2.2 years	2.2 years	2.2 years
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

(1) Includes performance units.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

(2) The Company also maintains an employee stock purchase plan (which is not included in the table) under which $.1 million and $.3 million of compensation cost was recognized for the three and six months ended June 30, 2010, respectively, and $.2 million and $.3 million of compensation cost was recognized for the three and six months ended June 30, 2009, respectively.

(3) Based on the closing price of the Company's common stock on June 30, 2010.

Stock Options

The following table summarizes stock option activity in the Company's stock-based compensation plans for the six months ended June 30, 2010.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)(1)	Number of Options Exercisable
Outstanding at January 1, 2010	1,818,419	$ 21.26	$ 7,387	1,722,216
Granted				
Exercised	(217,685)	19.31	1,624	
Cancelled	(24,414)	34.33		
Outstanding at June 30, 2010	1,576,320	$ 21.33	$ 12,909	1,530,907

(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, 2010.

	Restricted Stock(1)			Phantom Stock Units(2)		
	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)(3)
Unvested at January 1, 2010	2,028,683	$ 39.44		475,063	$ 27.91	
Awarded	1,212,843	25.97		122,185	24.46	
Vested	(506,845)	40.03	$ 15,386	(59,440)	42.00	$ 1,741
Forfeited	(71,010)	37.53		(28,991)	37.01	
Unvested at June 30, 2010	2,663,671	$ 33.25		508,817	$ 24.92	

(1) Includes performance units that were awarded to Forest's officers on May 21, 2010. There were 264,500 performance units awarded, with a grant date fair value of $31.63 each. Under the terms of the award agreements, each performance unit represents a contractual right to receive one share of Forest's common stock; provided that the actual number of shares that may be deliverable under an award will range from 0% to 200% of the number of performance units awarded, depending on Forest's relative total shareholder return in comparison to an identified peer group during the thirty-six month performance period ending on March 31, 2013.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

(2) Of the unvested units of phantom stock at June 30, 2010, 264,085 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 244,732 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements.

(3) Of the 59,440 phantom stock units that vested during the six months ended June 30, 2010, 59,000 units were settled in shares of common stock and 440 units were settled in cash.

(4) DEBT

The components of debt are as follows:

	June 30, 2010				December 31, 2009			
	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	1,938	1,222	288,160	285,000	2,583	1,638	289,221
7% Senior Subordinated Notes due 2013[(3)]	12			12	112	(2)		110
$8^1/_2$% Senior Notes due 2014	600,000	(21,144)		578,856	600,000	(24,029)		575,971
$7^3/_4$% Senior Notes due 2014[(4)]					150,000	(1,035)	7,713	156,678
$7^1/_4$% Senior Notes due 2019	1,000,000	506		1,000,506	1,000,000	534		1,000,534
Total long-term debt	1,885,012	(18,700)	1,222	1,867,534	2,035,112	(21,949)	9,351	2,022,514
Less: current portion of long-term debt[(4)]					(150,000)	1,035	(7,713)	(156,678)
Long-term portion of long-term debt	$ 1,885,012	(18,700)	1,222	1,867,534	1,885,112	(20,914)	1,638	1,865,836

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

(2) Due December 2011.

(3) In May 2010, the Company repurchased $.1 million in principal amount of the 7% senior subordinated notes due 2013 at par.

(4) In December 2009, the Company irrevocably called the $7^3/_4$% senior notes due 2014 and redeemed these notes in January 2010 at 101.292% of par and a net gain of $4.6 million was recognized upon redemption. The net gain was recognized due to the write-off of unamortized deferred gains on the termination of interest rate swaps.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT (Continued)

Bank Credit Facilities

As of June 30, 2010, the Company had syndicated bank revolving credit agreements with total lender commitments of $1.8 billion. The credit agreements consist of a $1.65 billion U.S. credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A. (the "U.S. Credit Facility") and a $150 million Canadian credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch (the "Canadian Credit Facility," and together with the U.S. Credit Facility, the "Credit Facilities"). The Credit Facilities will mature in June 2012. At June 30, 2010, 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 June 30, 2010, the borrowing base under the Credit Facilities was $1.3 billion, which Forest has allocated $1.155 billion to the U.S. Credit Facility and $145 million to the Canadian Credit Facility. The determination of the Global Borrowing Base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of Forest's oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders' customary practices for oil and gas loans. The available borrowing amount under the Credit Facilities could increase or decrease based on such redetermination. In April 2010, the lenders reaffirmed the borrowing base at $1.3 billion and the next redetermination is expected to occur in the third or fourth quarter of 2010. In addition to the semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the Global Borrowing Base redetermined. The Global Borrowing Base is also subject to automatic adjustments if certain events occur.

(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 June 30, 2010 and 2009, Forest capitalized $10.5 million and $11.6 million of general and administrative costs (including stock-based compensation), respectively. During the six months ended June 30, 2010 and 2009, Forest capitalized $22.6 million and $22.1 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 June 30, 2010 and 2009, the Company capitalized $3.1 million and $3.4 million, respectively, of interest costs attributed to unproved properties. During the six months ended June 30, 2010 and 2009, the Company capitalized $5.9 million and $6.8 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

FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(5) PROPERTY AND EQUIPMENT (Continued)

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

The Company performs a ceiling test each quarter on a country-by-country basis. The full cost ceiling test is a limitation on capitalized costs prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is not a fair value based measurement. Rather, it is a standardized mathematical calculation. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices (as discussed below), excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, at a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, a ceiling test write-down would be recognized to the extent of the excess capitalized costs. The June 30, 2010 ceiling test, which did not result in a write-down, was based on average prices during the twelve-month period prior to June 30, 2010 pursuant to the SEC's "Modernization of Oil and Gas Reporting" rule, which was effective beginning with December 31, 2009 reporting. The March 31, 2009 ceiling test, which was based on the March 31, 2009 spot prices, resulted in non-cash write-downs of oil and gas property costs of $1.4 billion in the United States cost center and $199.0 million in the Canada cost center.

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

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

(6) ASSET RETIREMENT OBLIGATIONS

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) ASSET RETIREMENT OBLIGATIONS (Continued)

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, 2010 and 2009.

	Six Months Ended June 30,	
	2010	2009
	(In Thousands)	
Asset retirement obligations at beginning of period	$ 93,303	96,991
Accretion expense	3,748	4,181
Liabilities incurred	1,461	2,334
Liabilities settled	(614)	(2,153)
Disposition of properties	(7,143)	(2,138)
Revisions of estimated liabilities	(4,282)	(3,922)
Impact of foreign currency exchange rate	(252)	513
Asset retirement obligations at end of period	86,221	95,806
Less: current asset retirement obligations	(2,673)	(4,368)
Long-term asset retirement obligations	$ 83,548	91,438

(7) FAIR VALUE MEASUREMENTS

The Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2010 are set forth in the table below.

Description	Using Significant Other Observable Inputs (Level 2)[1]
	(In Thousands)
Assets:	
Derivative instruments[2]	
Commodity	$ 70,133
Interest rate	18,388
Total assets	$ 88,521
Liabilities:	
Derivative instruments[2]	
Commodity	$ 20,904
Interest rate	5
Total liabilities	$ 20,909

(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;

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company uses the income approach to value financial instruments under the Level 2 hierarchy.

(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 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 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 six months ended June 30, 2009. The Company did not have assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at any time during 2010.

	Six Months Ended June 30, 2009	
	Equity Securities	Debt Securities[1]
	(In Thousands)	
Balance at beginning of period	$	1,670
Total losses (realized/unrealized):		
Included in earnings	(657)	(1,670)
Included in other comprehensive income		
Purchases, issuances, sales, and settlements:		
Purchases		
Issuances		
Sales		
Settlements		
Transfers in and/or out of Level 3[2][3]	657	
Balance at end of period	$	
The amount of total losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at end of period	$ (657)	(1,670)

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

(2) The Company's investment in PERL common stock, which the Company also received as a portion of the total consideration for the sale of the Company's Alaska assets in 2007, was transferred from Level 1 to Level 3 in the first quarter of 2009 when PERL's common stock was suspended from trading for failure to meet the continued

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

stock exchange listing requirements. The Company used its own assumptions as to what market participants would assume regarding future cash flows and risk-adjusted discount rates in valuing the PERL common stock, which is currently valued at zero and has been since March 31, 2009.

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

The table below sets forth 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 six months ended June 30, 2009, which are reported in the Condensed Consolidated Statements of Operations under "Other, net." The Company did not record any gains or losses (realized and unrealized) related to assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2010 or the three months ended June 30, 2009.

	Six Months Ended June 30, 2009	
	Equity Securities	Debt Securities
	(In Thousands)	
Total losses included in earnings for the period	$ 657	1,670
Change in unrealized losses relating to assets still held at end of period	$ 657	1,670

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

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value(1)	Carrying Amount	Fair Value(1)
	(In Thousands)			
Assets:				
Cash and cash equivalents	$ 200,786	200,786	467,221	467,221
Derivative instruments	88,521	88,521	36,199	36,199
Liabilities:				
Derivative instruments	20,909	20,909	42,184	42,184
8% senior notes due 2011	288,160	302,100	289,221	296,400
7% senior subordinated notes due 2013	12	12	110	112
8 $^1/_2$% senior notes due 2014	578,856	636,000	575,971	630,000
7 $^3/_4$% senior notes due 2014			156,678	151,938
7 $^1/_4$% senior notes due 2019	1,000,506	1,005,000	1,000,534	992,500

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS

Commodity Derivatives

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

The table below sets forth Forest's outstanding commodity swaps and costless collars as of June 30, 2010.

Commodity Swaps and Collars

	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 2010 - December 2010	210	$ 6.20	3,000	$ 76.06
Calendar 2011	55	6.02		
Collars:				
July 2010 - December 2010			2,000	60.00/98.50(1)
Calendar 2011			3,000	75.00/91.87(1)(2)

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

(2) In May 2010, Forest lowered the hedged ceiling price on one of its existing Calendar 2011 oil collars covering 1,000 barrels per day from $105.00 per Bbl to $90.00 per Bbl in exchange for a new natural gas swap with a premium hedged price of $6.05 per MMBtu covering 10 Bbtu per day for Calendar 2011 with the same counterparty.

In connection with several new gas swaps entered into during the second quarter of 2010, Forest also entered into commodity swaptions that enable the counterparties to exercise options to either enter into commodity swaps or increase the Bbtu per day on certain existing swaps, as the case may be, with Forest in exchange for Forest receiving premium hedged prices on the commodity swaps. During the three months ended June 30, 2010, Forest entered into gas swaps covering 45 Bbtu per day for Calendar 2011 at a weighted average hedged price of $6.02 per MMBtu. In connection with these swaps, the counterparties were granted the following commodity swaptions, which were outstanding as of June 30, 2010.

Commodity Swaptions

		Natural Gas (NYMEX HH)		Oil (NYMEX WTI)	
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
December 2010	Calendar 2011	30	$ 6.00		$
December 2011	Calendar 2012			1,000	90.00

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

Subsequent to June 30, 2010, through August 3, 2010, Forest entered into three additional gas swaps covering 35 Bbtu per day for Calendar 2011 for a weighted average hedged price of $5.61 per MMBtu. In connection with these swaps, Forest granted commodity swaptions, which expire in December 2010, that enable the counterparties to exercise options to double the Bbtu per day on the gas swaps covering 20 Bbtu per day at a weighted average hedged price of $5.51 per MMBtu and granted a $90.00 per Bbl call option on 1,000 barrels of oil per day for Calendar 2011.

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 a portion of its natural gas production is sold. The table below sets forth Forest's outstanding basis swaps as of June 30, 2010.

Basis Swaps

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

Interest Rate Derivatives

Forest periodically enters into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within its debt portfolio. The Company has elected not to designate its derivatives as hedging instruments. As such, the Company recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed Consolidated Statement of Operations. The table below sets forth Forest's outstanding fixed-to-floating interest rate swaps as of June 30, 2010.

Interest Rate Swaps

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

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

rate for the floating rates it had targeted. The table below sets forth Forest's outstanding interest rate swaption as of June 30, 2010.

Interest Rate Swaption

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

Fair Value and Gains and Losses

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

	June 30, 2010	December 31, 2009
	(In Thousands)	
Assets:		
Commodity derivatives:		
Current assets: derivative instruments	$ 63,280	35,454
Derivative instruments	6,853	
Interest rate derivatives:		
Current assets: derivative instruments	9,831	189
Derivative instruments	8,557	556
Total assets	88,521	36,199
Liabilities:		
Commodity derivatives:		
Current liabilities: derivative instruments	17,747	40,843
Derivative instruments	3,157	
Interest rate derivatives:		
Current liabilities: derivative instruments	5	515
Derivative instruments		826
Total liabilities	20,909	42,184
Net derivative fair value	$ 67,612	(5,985)

The table below summarizes the amount of derivative instrument gains and losses reported in the Condensed Consolidated Statements of Operations as "Realized and unrealized (gains) losses on

FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

derivative instruments, net," for the periods indicated. These derivative instruments are not designated as hedging instruments for accounting purposes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Commodity derivatives:				
Realized (gains)	$ (31,215)	(84,843)	(37,663)	(156,108)
Unrealized losses (gains)	25,005	113,399	(54,617)	47,615
Interest rate derivatives:				
Realized (gains)	(3,310)	(2,893)	(6,831)	(3,417)
Unrealized (gains) losses	(15,511)	7,118	(19,131)	5,363
Realized and unrealized (gains) losses on derivative instruments, net	$ (25,031)	32,781	(118,242)	(106,547)

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.

Credit Risk

Forest executes with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. Additionally, Forest executes, with each of its derivative counterparties, a Schedule, which modifies the terms and conditions of the ISDA Master Agreement according to the parties' requirements and the specific types of derivatives to be traded. All but one of the counterparties is a lender, or an affiliate of a lender, under the Credit Facilities, which provide that any security granted by Forest under the Credit Facilities shall also extend to and be available to those lenders that are counterparties to derivative transactions with Forest. None of these counterparties require collateral beyond that already pledged under the Credit Facilities. The remaining counterparty, a purchaser of Forest's natural gas production, generally is a net debtor to Forest and as a result of these purchases does not require collateral under the ISDA Master Agreement and Schedule it has executed with Forest. Forest is currently evaluating the impact, if any, that the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act will have on the existing derivative transactions under the Company's currently outstanding ISDA Master Agreements and Schedules, as well as Forest's ability to enter into such transactions and agreements in the future.

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

addition, bankruptcy and insolvency events with respect to Forest or certain of its subsidiaries will result in an automatic acceleration of the indebtedness under the Credit Facilities. None of these events of default are specifically credit-related, but some could arise if there were a general deterioration of Forest's credit. The ISDA Master Agreements and Schedules contain a further credit-related termination event that would occur if Forest were to merge with another entity and the creditworthiness of the resulting entity was materially weaker than that of Forest.

The vast majority of Forest's derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Forest does not require the posting of collateral for its benefit under its derivative agreements. However, Forest's ISDA Master Agreements contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions apply to all derivative transactions with the particular counterparty. If all counterparties failed, Forest would be exposed to a risk of loss equal to this net amount owed to us, the fair value of which was $71.0 million at June 30, 2010. If Forest suffered an event of default, each counterparty could demand immediate payment, subject to notification periods, of the net obligations due to it under the derivative agreements. At June 30, 2010, Forest owed a net derivative liability to four counterparties, the fair value of which was $3.4 million.

(9) INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In Thousands)			
Federal income tax at 35% of earnings (loss) before income taxes	$ 19,009	(10,102)	78,010	(523,944)
Change in valuation allowance for deferred tax assets	512	(52,680)	(178)	163,157
State income taxes, net of federal income tax benefits	634	(413)	2,306	(14,657)
Effect of differing tax rates in Canada	175	(463)	(1,154)	11,875
Effect of federal, state, and foreign tax on permanent items	712	(977)	2,037	2,143
Adjustments for statutory rate reductions and other	16	(1,368)	(552)	5,076
Total income tax	$ 21,058	(66,003)	80,469	(356,350)

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(10) COSTS, EXPENSES, AND OTHER

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
	(In Thousands)			
Unrealized foreign currency exchange losses (gains), net	$ 10,604	(9,425)	3,954	(5,886)
Unrealized losses on other investments, net				2,327
Accretion of asset retirement obligations	1,909	2,143	3,748	4,181
Loss (gain) on debt extinguishment, net	2		(4,576)	
Other, net	2,034	3,318	3,429	6,535
	$ 14,549	(3,964)	6,555	7,157

(11) GEOGRAPHICAL SEGMENTS

At June 30, 2010, Forest conducted operations in one industry segment, oil and gas exploration and production, and had three reportable geographical business segments: United States, Canada, and International. Forest's remaining activities were not significant and therefore were not reported as a separate segment, but have been included as a reconciling item in the information below. The segments were determined based upon the geographical location of operations in each business segment. The segment data presented below was prepared on the same basis as the Condensed Consolidated Financial Statements.

	Oil and Gas Exploration and Production							
	Three Months Ended June 30, 2010				Six Months Ended June 30, 2010			
	United States	Canada	International	Total Company	United States	Canada	International	Total Company
	(In Thousands)							
Oil and gas sales	$ 169,699	38,255		207,954	354,021	75,662		429,683
Costs and expenses:								
Lease operating expenses	22,479	5,943		28,422	45,947	11,577		57,524
Production and property taxes	11,862	625		12,487	22,668	1,247		23,915
Transportation and processing costs	3,271	2,749		6,020	5,926	4,953		10,879
Depletion	43,919	16,216		60,135	80,430	29,332		109,762
Accretion of asset retirement obligations	1,627	258	24	1,909	3,176	523	49	3,748
Segment earnings (loss)	$ 86,541	12,464	(24)	98,981	195,874	28,030	(49)	223,855
Capital expenditures(1)	$ 164,270	52,240	991	217,501	330,766	159,881	2,105	492,752
Goodwill(2)	$ 239,420	16,276		255,696	239,420	16,276		255,696
Long-lived assets(2)(3)	$ 1,879,893	548,632	89,095	2,517,620	1,879,893	548,632	89,095	2,517,620
Total assets(2)	$ 2,938,736	622,162	89,878	3,650,776	2,938,736	622,162	89,878	3,650,776

(1) Includes estimated discounted asset retirement obligations of $6.8 million and $(2.8) million recorded during the three and six months ended June 30, 2010, respectively.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) GEOGRAPHICAL SEGMENTS (Continued)

(2) As of June 30, 2010.

(3) Consists of net property and equipment.

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

		Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
		(In Thousands)	
Segment earnings	$	98,981	223,855
Interest and other income		141	277
General and administrative expense		(17,781)	(36,534)
Depreciation and amortization expense		(2,311)	(4,996)
Interest expense		(37,109)	(75,152)
Realized and unrealized gains on derivative instruments, net		25,031	118,242
Other, net		(12,640)	(2,807)
Earnings before income taxes	$	54,312	222,885

		Oil and Gas Exploration and Production							
		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
Long-lived assets(2)(3)	$	2,542,658	491,426	79,569	3,113,653	2,542,658	491,426	79,569	3,113,653
Total assets(2)	$	3,389,041	503,010	80,327	3,972,378	3,389,041	503,010	80,327	3,972,378

(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)

(11) GEOGRAPHICAL SEGMENTS (Continued)

(3) Consists of net property and equipment.

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 income		435	644
General and administrative expense		(15,649)	(31,734)
Depreciation and amortization expense		(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)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company's 8% senior notes due 2011, 8$^1/_2$% 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, 2010 and December 31, 2009 and for the six months ended June 30, 2010 and 2009 on an issuer (parent company), guarantor subsidiary, non-guarantor subsidiaries, eliminating entries, and consolidated basis. Elimination entries presented are necessary to combine the entities.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS
(Unaudited)
(In Thousands)

	June 30, 2010					December 31, 2009				
	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	$ 200,163	1	622		**200,786**	456,978	379	9,864		**467,221**
Accounts receivable	46,808	36,050	37,707	(448)	**120,117**	79,857	24,406	22,671	(580)	**126,354**
Deferred income taxes						6,589	519			**7,108**
Other current assets	132,279	774	19,415		**152,468**	115,663	797	12,849		**129,309**
Total current assets	379,250	36,825	57,744	(448)	**473,371**	659,087	26,101	45,384	(580)	**729,992**
Property and equipment, at cost	7,273,707	1,134,625	1,769,843		**10,178,175**	7,093,082	1,074,610	1,657,986		**9,825,678**
Less accumulated depreciation, depletion, and amortization	5,558,455	1,014,910	1,087,190		**7,660,555**	5,502,530	994,005	1,069,936		**7,566,471**
Net property and equipment	1,715,252	119,715	682,653		**2,517,620**	1,590,552	80,605	588,050		**2,259,207**
Investment in subsidiaries	333,224			(333,224)		308,424			(308,424)	
Note receivable from subsidiary	224,306			(224,306)		135,529			(135,529)	
Goodwill	216,460	22,960	16,276		**255,696**	216,460	22,960	16,488		**255,908**
Due from (to) parent and subsidiaries	238,555	(54,920)	(183,635)			215,679	(60,884)	(154,795)		
Deferred income taxes	359,885			(13,751)	**346,134**	395,519			(2,458)	**393,061**
Other assets	55,712	6	2,237		**57,955**	44,087	6	2,429		**46,522**
	$ 3,522,644	124,586	575,275	(571,729)	**3,650,776**	3,565,337	68,788	497,556	(446,991)	**3,684,690**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities:										

Accounts payable and accrued liabilities	$ 222,327	2,682	35,784	(448)	**260,345**	238,935	6,825	39,122	(580)	**284,302**
Current portion of long-term-debt						156,678				**156,678**
Other current liabilities	75,385		6,502		**81,887**	86,633	64	7,343		**94,040**
Total current liabilities	297,712	2,682	42,286	(448)	**342,232**	482,246	6,889	46,465	(580)	**535,020**
Long-term debt	1,867,534				**1,867,534**	1,865,836				**1,865,836**
Note payable to parent			224,306	(224,306)				135,529	(135,529)	
Other liabilities	123,760	2,309	30,751		**156,820**	121,869	769	35,158		**157,796**
Deferred income taxes		33,360	30,943	(13,751)	**50,552**	16,232	4,446	28,664	(2,458)	**46,884**
Total liabilities	2,289,006	38,351	328,286	(238,505)	**2,417,138**	2,486,183	12,104	245,816	(138,567)	**2,605,536**
Shareholders' equity	1,233,638	86,235	246,989	(333,224)	**1,233,638**	1,079,154	56,684	251,740	(308,424)	**1,079,154**
	$ 3,522,644	124,586	575,275	(571,729)	**3,650,776**	3,565,337	68,788	497,556	(446,991)	**3,684,690**

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(12) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

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

	Three Months Ended June 30,									
	2010					2009				
	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	$ 116,748	52,353	38,853		**207,954**	122,634	31,156	27,840		181,630
Interest and other	1,083		3	(945)	**141**	3,761	16	(88)	(3,254)	435
Equity earnings (losses) in subsidiaries	18,186			(18,186)		16,346			(16,346)	
Total revenues	136,017	52,353	38,856	(19,131)	**208,095**	142,741	31,172	27,752	(19,600)	182,065
Costs, expenses, and other:										
Lease operating expenses	19,486	2,937	5,999		**28,422**	24,765	5,182	8,089		38,036
Other direct operating costs	11,894	3,615	2,998		**18,507**	12,762	2,000	2,351		17,113
General and administrative	14,412	615	2,754		**17,781**	13,161	612	1,876		15,649
Depreciation, depletion, and amortization	32,607	13,096	16,743		**62,446**	46,247	10,460	11,430		68,137
Interest expense	35,331	221	2,502	(945)	**37,109**	39,612	2,518	4,299	(3,254)	43,175
Realized and unrealized (gains) losses on derivative instruments, net	(21,014)	(3,987)	(30)		**(25,031)**	25,903	6,644	234		32,781
Other, net	1,577	84	12,888		**14,549**	332	45	(4,341)		(3,964)
Total costs, expenses, and other	94,293	16,581	43,854	(945)	**153,783**	162,782	27,461	23,938	(3,254)	210,927
Earnings (loss) before income taxes	41,724	35,772	(4,998)	(18,186)	**54,312**	(20,041)	3,711	3,814	(16,346)	(28,862)

Income tax	8,470	13,132	(544)		**21,058**	(57,182)	(7,678)	(1,143)		(66,003)
Net earnings (loss)	$ 33,254	22,640	(4,454)	(18,186)	**33,254**	37,141	11,389	4,957	(16,346)	37,141

	Six Months Ended June 30,									
	2010					2009				
	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	$ 259,204	93,495	76,984		**429,683**	255,777	63,677	56,835		**376,289**
Interest and other	2,767	9	9	(2,508)	**277**	6,818	91	(35)	(6,230)	**644**
Equity earnings (losses) in subsidiaries	59,253			(59,253)		(294,297)			294,297	
Total revenues	321,224	93,504	76,993	(61,761)	**429,960**	(31,702)	63,768	56,800	288,067	**376,933**
Costs, expenses, and other:										
Lease operating expenses	40,117	5,626	11,781		**57,524**	53,690	10,738	14,839		**79,267**
Other direct operating costs	23,118	6,229	5,447		**34,794**	25,915	3,474	4,663		**34,052**
General and administrative	30,060	1,163	5,311		**36,534**	26,473	1,327	3,934		**31,734**
Depreciation, depletion, and amortization	63,490	20,905	30,363		**114,758**	117,763	28,471	26,455		**172,689**
Ceiling test write-down of oil and gas properties						1,155,777	218,567	201,499		**1,575,843**
Interest expense	72,634	1,078	3,948	(2,508)	**75,152**	71,279	4,821	9,850	(6,230)	**79,720**
Realized and unrealized gains on derivative instruments, net	(98,061)	(19,941)	(240)		**(118,242)**	(87,192)	(19,079)	(276)		**(106,547)**
Other, net	(1,127)	32	7.650		**6,555**	5,942	141	1,074		**7,157**
Total costs, expenses, and other	130,231	15,092	64,260	(2,508)	**207,075**	1,369,647	248,460	262,038	(6,230)	**1,873,915**
Earnings (loss) before income taxes	190,993									