

FOREST OIL CORP
Form 10-Q
May 03, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

Or

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

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

FOREST OIL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

80202
(Zip Code)

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

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

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

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

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Act.

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

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

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

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March 31, 2011

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Amounts)

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 163,308 | \$ 218,145 |
| Accounts receivable | 110,747 | 135,730 |
| Derivative instruments | 49,219 | 60,182 |
| Inventory | 27,244 | 32,633 |
| Other current assets | 47,261 | 34,993 |
| Total current assets | 397,779 | 481,683 |
| Property and equipment, at cost: | | |
| Oil and gas properties, full cost method of accounting: | | |
| Proved, net of accumulated depletion of \$7,908,200 and \$7,813,494 | 2,014,109 | 1,850,459 |
| Unproved | 795,307 | 751,784 |
| Net oil and gas properties | 2,809,416 | 2,602,243 |
| Other property and equipment, net of accumulated depreciation and amortization of \$53,123 and \$50,491 | 116,097 | 113,435 |
| Net property and equipment | 2,925,513 | 2,715,678 |
| Deferred income taxes | 280,652 | 284,021 |
| Goodwill | 257,292 | 256,842 |
| Derivative instruments | 9,608 | 8,244 |
| Other assets | 37,363 | 38,920 |
| | \$ 3,908,207 | \$ 3,785,388 |

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

| | | |
|--|------------|------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 313,988 | \$ 252,200 |
| Accrued interest | 34,691 | 23,630 |
| Derivative instruments | 71,889 | 36,413 |
| Deferred income taxes | | 6,911 |
| Current portion of long-term debt | 286,563 | 287,092 |
| Asset retirement obligations | 453 | 561 |
| Other current liabilities | 21,024 | 22,567 |

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Per Share Amounts)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

(In Thousands)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Forest Oil Corporation ("Forest" or the "Company") is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, natural gas, and natural gas liquids ("NGLs") primarily in North America. Forest was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969. Forest is active in several of the major exploration and producing areas in the United States and in Canada and has exploratory and development interests in two other foreign countries.

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

Basis of Presentation

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest and its consolidated subsidiaries. In the opinion of management, all adjustments, consisting of normal recurring accruals, have been made which are necessary for a fair presentation of the financial position of Forest at March 31, 2011 and the results of its operations, its cash flows, and changes in its shareholders' equity for the periods presented. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in the price of oil, natural gas, and natural gas liquids and the impact the prices have on our revenues and fair values of our derivative instruments.

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

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

Certain amounts in the prior year financial statements have been reclassified to conform to the 2011 financial statement presentation.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION (Continued)

For a more complete understanding of Forest's operations, financial position, and accounting policies, reference is made to the consolidated financial statements of Forest, and related notes thereto, filed with Forest's Annual Report on Form 10-K for the year ended December 31, 2010, previously filed with the Securities and Exchange Commission ("SEC").

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

Earnings (Loss) per Share

Basic earnings (loss) per share is computed using the two-class method by dividing net earnings (loss) attributable to common stock by the weighted average number of common shares outstanding during each period. The two-class method of computing earnings per share is required for those entities that have participating securities or multiple classes of common stock. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Holders of restricted stock issued under Forest's stock incentive plans have the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock. Holders of phantom stock units issued to directors under Forest's stock incentive plans also have the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock, while phantom stock units issued to employees do not participate in dividends. Stock options issued under Forest's stock incentive plans do not participate in dividends. Performance units issued under Forest's stock incentive plans do not participate in dividends in their current form. Holders of performance units participate in dividends paid during the performance units' vesting period only after the performance units vest with common shares being earned by the holders of the performance units. Performance units may vest with no common shares being earned, depending on Forest's shareholder return over the performance units' vesting period in relation to the shareholder returns of specified peers. See Note 3 for more information on Forest's stock-based incentive awards. In summary, restricted stock issued to employees and directors and phantom stock units issued to directors are participating securities and earnings are allocated to both common stock and these participating securities under the two-class method. However, these participating securities do not have a contractual obligation to share in Forest's losses. Therefore, in periods of net loss, none of the loss is allocated to these participating securities.

Under the treasury stock method, diluted earnings (loss) per share is computed by dividing net earnings (loss) adjusted for the effects of certain contracts that provide the issuer or holder with a choice between settlement methods by the weighted average number of common shares outstanding adjusted for the dilutive effect, if any, of potential common shares (e.g. stock options, unvested restricted stock grants, unvested phantom stock units that may be settled in shares, and unvested performance units). No potential common shares shall be included in the computation of any diluted per share amount when a net loss exists. No potential common shares were included in the calculation of diluted loss per share for the three months ended March 31, 2011 as their inclusion would have an antidilutive effect. Unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three months ended March 31, 2010 as their inclusion would have an antidilutive effect.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

Comprehensive Earnings

Comprehensive earnings is a term used to refer to net earnings (loss) plus other comprehensive income. Other comprehensive income is comprised of revenues, expenses, gains, and losses that under generally accepted accounting principles are reported as separate components of shareholders' equity instead of net earnings (loss). Items included in Forest's other comprehensive income for the three months ended March 31, 2011 and 2010 are net foreign currency gains related to the translation of the assets and liabilities of Forest's Canadian operations and changes in unfunded postretirement benefits.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

The components of comprehensive earnings are as follows:

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

(3) STOCK-BASED COMPENSATION

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

| | Stock Options | Restricted Stock | Performance Units | Phantom Stock Units | Total ⁽¹⁾ |
|--|------------------|---------------------|----------------------|-------------------------|----------------------|
| | (In Thousands) | | | | |
| Three months ended March 31, 2011: | | | | | |
| Total stock-based compensation costs | \$ 163 | \$ 6,369 | \$ 671 | \$ 1,318 | \$ 8,521 |
| Less: stock-based compensation costs capitalized | (71) | (2,591) | (192) | (625) | (3,479) |
| Stock-based compensation costs expensed | \$ 92 | \$ 3,778 | \$ 479 | \$ 693 | \$ 5,042 |
| Unamortized stock-based compensation costs | \$ 134 | \$ 21,999 | \$ 5,364 | \$ 7,944 ⁽²⁾ | \$ 35,441 |
| Weighted average amortization period remaining | .2 years | 1.9 years | 2.0 years | 1.7 years | 1.8 years |
| Three months ended March 31, 2010: | | | | | |
| Total stock-based compensation costs | \$ 222 | \$ 6,821 | \$ | \$ 1,268 | \$ 8,311 |
| Less: stock-based compensation costs capitalized | (93) | (2,691) | | (589) | (3,373) |
| Stock-based compensation costs expensed | \$ 129 | \$ 4,130 | \$ | \$ 679 | \$ 4,938 |

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

(2)

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

Stock Options

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

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

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

Restricted Stock, Performance Stock Units, and Phantom Stock Units

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

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

(1) Of the unvested units of phantom stock at March 31, 2011, 270,985 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 238,737 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements. Of the 362 phantom stock units that vested during the three months ended March 31, 2011, 300 units were settled in shares of common stock and 62 units were settled in cash.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT

The components of debt are as follows:

| | March 31, 2011 | | | | December 31, 2010 | | | |
|--|----------------|--------------------------------------|----------------------|--------------|-------------------|--------------------------------------|----------------------|--------------|
| | Principal | Unamortized Premium (Discount) | Other ⁽¹⁾ | Total | Principal | Unamortized Premium (Discount) | Other ⁽¹⁾ | Total |
| | (In Thousands) | | | | | | | |
| Credit Facilities | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 8% Senior Notes due 2011 ⁽²⁾ | 285,000 | 969 | 594 | 286,563 | 285,000 | 1,292 | 800 | 287,092 |
| 7% Senior Subordinated Notes due 2013 | 12 | | | 12 | 12 | | | 12 |
| 8 ¹ / ₂ % Senior Notes due 2014 | 600,000 | (16,774) | | 583,226 | 600,000 | (18,210) | | 581,790 |
| 7 ¹ / ₄ % Senior Notes due 2019 | 1,000,000 | 463 | | 1,000,463 | 1,000,000 | 478 | | 1,000,478 |
| Total debt | 1,885,012 | (15,342) | 594 | 1,870,264 | 1,885,012 | (16,440) | 800 | 1,869,372 |
| Less: current portion of debt ⁽²⁾ | (285,000) | (969) | (594) | (286,563) | (285,000) | (1,292) | (800) | (287,092) |
| Long-term portion of debt | \$ 1,600,012 | \$ (16,311) | \$ | \$ 1,583,701 | \$ 1,600,012 | \$ (17,732) | \$ | \$ 1,582,280 |

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

(2) Due December 2011.

Bank Credit Facilities

As of March 31, 2011, the Company had syndicated bank revolving credit agreements with total lender commitments of \$1.8 billion. The credit agreements consist of a \$1.65 billion U.S. credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A. (the "U.S. Credit Facility") and a \$150 million Canadian credit facility through a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch (the "Canadian Credit Facility," and together with the U.S. Credit Facility, the "Credit Facilities"). The Credit Facilities will mature in June 2012. At March 31, 2011, there were no outstanding borrowings under the Credit Facilities.

Forest's availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"). As of March 31, 2011, the borrowing base under the Credit Facilities was \$1.3 billion, which Forest has allocated \$1.155 billion to the U.S. Credit Facility and \$145 million to the Canadian Credit Facility. The determination of the Global Borrowing Base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of Forest's oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders' customary practices for oil and gas loans. The available borrowing amount under the Credit Facilities could increase or decrease based on such redetermination. In April 2011, the lenders reaffirmed the borrowing base at \$1.3 billion, which will be effective until Lone Pine's IPO, at which time the borrowing base will be redetermined. In addition to the semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the Global Borrowing Base redetermined. The Global Borrowing Base is also subject to automatic adjustments if certain events occur.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DEBT (Continued)

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

(5) PROPERTY AND EQUIPMENT

Full Cost Method of Accounting

The Company uses the full cost method of accounting for oil and gas properties. Separate cost centers are maintained for each country in which the Company has operations. During the periods presented, the Company's primary oil and gas operations were conducted in the United States and Canada. All costs incurred in the acquisition, exploration, and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes, and overhead related to exploration and development activities) and the fair value of estimated future costs of site restoration, dismantlement, and abandonment activities are capitalized. During the three months ended March 31, 2011 and 2010, Forest capitalized \$13.4 million and \$12.1 million of general and administrative costs (including stock-based compensation), respectively. Interest costs related to significant unproved properties that are under development are also capitalized to oil and gas properties. During the three months ended March 31, 2011 and 2010, the Company capitalized \$2.2 million and \$2.8 million, respectively, of interest costs attributed to unproved properties.

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(5) PROPERTY AND EQUIPMENT (Continued)

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

The Company performs a ceiling test each quarter on a country-by-country basis under the full cost method of accounting. The ceiling test is a limitation on capitalized costs prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is not a fair value based measurement. Rather, it is a standardized mathematical calculation. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices, excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, at a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, a ceiling test write-down would be recognized to the extent of the excess capitalized costs.

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

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

(6) ASSET RETIREMENT OBLIGATIONS

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(6) ASSET RETIREMENT OBLIGATIONS (Continued)

The following table summarizes the activity for Forest's asset retirement obligations for the three months ended March 31, 2011 and 2010.

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

(7) FAIR VALUE MEASUREMENTS

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

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

(1) The authoritative accounting guidance regarding fair value measurements for assets and liabilities measured at fair value establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers consist of: Level 1, defined as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly

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observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company uses the income approach to value its derivative instruments under the Level 2 hierarchy.

(2)

The Company's derivative assets and liabilities include commodity and interest rate derivatives (see Note 8 for more information on these instruments). The Company utilizes present value techniques and option-pricing models

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(7) FAIR VALUE MEASUREMENTS (Continued)

for valuing its derivatives. Inputs to these valuation techniques include published forward prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. All of the significant inputs are observable, either directly or indirectly; therefore, the Company's derivative instruments are included within the Level 2 fair value hierarchy.

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

| | March 31, 2011 | | December 31, 2010 | |
|---|-----------------|---------------------------|-------------------|---------------------------|
| | Carrying Amount | Fair Value ⁽¹⁾ | Carrying Amount | Fair Value ⁽¹⁾ |
| | (In Thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 163,308 | \$ 163,308 | \$ 218,145 | \$ 218,145 |
| Derivative instruments | 58,827 | 58,827 | 68,426 | 68,426 |
| Liabilities: | | | | |
| Derivative instruments | 76,598 | 76,598 | 36,413 | 36,413 |
| 8% senior notes due 2011 | 286,563 | 297,648 | 287,092 | 300,658 |
| 7% senior subordinated notes due 2013 | 12 | 12 | 12 | 12 |
| 8 ¹ / ₂ % senior notes due 2014 | 583,226 | 666,750 | 581,790 | 660,000 |
| 7 ¹ / ₄ % senior notes due 2019 | 1,000,463 | 1,050,000 | 1,000,478 | 1,022,670 |

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

(8) DERIVATIVE INSTRUMENTS

Commodity Derivatives

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

The table below sets forth Forest's outstanding commodity swaps and costless collars as of March 31, 2011.

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

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

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

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

Interest Rate Derivatives

Forest periodically enters into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within its debt portfolio. The Company has elected not to designate its derivatives as hedging instruments. As such, the Company recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed Consolidated Statement of Operations. The table below sets forth Forest's outstanding fixed-to-floating interest rate swaps as of March 31, 2011.

Interest Rate Swaps

Remaining Swap Term

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

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

Fair Value and Gains and Losses

The table below summarizes the location and fair value amounts of Forest's derivative instruments reported in the Condensed Consolidated Balance Sheets as of the dates indicated. These derivative instruments are not designated as hedging instruments for accounting purposes. For financial reporting purposes, Forest does not offset asset and liability fair value amounts recognized for derivative instruments with the same counterparty under its master netting arrangements. See Note 7 to the Condensed Consolidated Financial Statements for more information on the fair values of Forest's derivative instruments.

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

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Commodity derivatives: | | |
| Realized gains | \$ (10,568) | \$ (6,448) |
| Unrealized losses (gains) | 46,358 | (79,622) |
| Interest rate derivatives: | | |
| Realized gains | (2,970) | (3,521) |
| Unrealized losses (gains) | 3,426 | (3,620) |
| Realized and unrealized losses (gains) on derivative instruments, net | \$ 36,246 | \$ (93,211) |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(8) DERIVATIVE INSTRUMENTS (Continued)

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

Credit Risk

Forest executes with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. Additionally, Forest executes, with each of its derivative counterparties, a Schedule, which modifies the terms and conditions of the ISDA Master Agreement according to the parties' requirements and the specific types of derivatives to be traded. As of March 31, 2011, all of the derivative counterparties are lenders, or an affiliate of a lender, under the Credit Facilities, which provide that any security granted by Forest under the Credit Facilities shall also extend to and be available to those lenders that are counterparties to derivative transactions with Forest. None of these counterparties require collateral beyond that already pledged under the Credit Facilities.

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

Forest's derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Forest does not require the posting of collateral for its benefit under its derivative agreements. However, Forest's ISDA Master Agreements contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions apply to all derivative transactions with the particular counterparty. If all counterparties failed, Forest would be exposed to a risk of loss equal to this net amount owed to Forest, the fair value of which was \$12.3 million at March 31, 2011. If Forest suffered an event of default, each counterparty could demand immediate payment, subject to notification periods, of the net obligations due to it under the derivative agreements. At March 31, 2011, Forest owed a net derivative liability to seven counterparties, the fair value of which was \$30.1 million. If the netting provisions of the ISDA Master Agreements did not exist, at March 31, 2011, Forest would be exposed to a risk of loss of \$58.8 million under its derivative agreements and Forest's derivative counterparties would be exposed to a risk of loss of \$76.6 million.

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

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

(9) COSTS, EXPENSES, AND OTHER

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

| | Three Months Ended | |
|---|---------------------------|-------------------|
| | March 31, | |
| | 2011 | 2010 |
| | (In Thousands) | |
| Unrealized foreign currency exchange gains, net | \$ (7,820) | \$ (6,650) |
| Accretion of asset retirement obligations | 1,724 | 1,839 |
| Gain on debt extinguishment, net | | (4,578) |
| Other, net | 2,213 | 1,395 |
| | \$ (3,883) | \$ (7,994) |

(10) GEOGRAPHICAL SEGMENTS

At March 31, 2011, Forest conducted operations in one industry segment, oil and gas exploration and production, and had three reportable geographical business segments: United States, Canada, and International. Forest's remaining activities were not significant and therefore were not reported as a separate segment, but have been included as a reconciling item in the information below. The segments were determined based upon the geographical location of operations in each business segment. The

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(10) GEOGRAPHICAL SEGMENTS (Continued)

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

Oil and Gas Exploration and Production
Three Months Ended March 31, 2011

| | United States | Canada | International | Total Company |
|---|----------------|------------|---------------|---------------|
| | (In Thousands) | | | |
| Oil, natural gas, and NGL sales | \$ 166,310 | \$ 36,261 | \$ | \$ 202,571 |
| Costs and expenses: | | | | |
| Lease operating expenses | 23,630 | 8,227 | | 31,857 |
| Production and property taxes | 11,606 | 603 | | 12,209 |
| Transportation and processing costs | 3,651 | 3,625 | | 7,276 |
| Depletion | 46,804 | 18,595 | | 65,399 |
| Accretion of asset retirement obligations | 1,423 | 275 | 26 | 1,724 |
| Segment earnings (loss) | \$ 79,196 | \$ 4,936 | \$ (26) | \$ 84,106 |
| Capital expenditures ⁽¹⁾ | \$ 189,778 | \$ 77,943 | \$ 517 | \$ 268,238 |
| Goodwill ⁽²⁾ | \$ 239,420 | \$ 17,872 | \$ | \$ 257,292 |
| Long-lived assets ⁽²⁾⁽³⁾ | \$ 2,109,728 | \$ 723,653 | \$ 92,132 | \$ 2,925,513 |
| Total assets ⁽²⁾ | \$ 3,013,637 | \$ 796,201 | \$ 98,369 | \$ 3,908,207 |

(1) Includes changes in estimated discounted asset retirement obligations of \$.1 million recorded during the three months ended March 31, 2011.

(2) As of March 31, 2011.

(3) Consists of net property and equipment.

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

| | Three Months Ended March 31, 2011 |
|---------------------------------------|--------------------------------------|
| | (In Thousands) |
| Segment earnings | \$ 84,106 |
| Interest and other income | 564 |
| General and administrative expense | (19,034) |
| Depreciation and amortization expense | (2,164) |
| Interest expense | (37,880) |

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| | | |
|---|----|----------|
| Realized and unrealized losses on derivative instruments, net | | (36,246) |
| Other, net | | 5,607 |
| Loss before income taxes | \$ | (5,047) |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(10) GEOGRAPHICAL SEGMENTS (Continued)

Oil and Gas Exploration and Production

Three Months Ended March 31, 2010

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

(1) Includes changes in estimated discounted asset retirement obligations of \$(9.6) million recorded during the three months ended March 31, 2010.

(2) As of March 31, 2010.

(3) Consists of net property and equipment.

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

| | Three Months Ended March 31, 2010 |
|--|--------------------------------------|
| | (In Thousands) |
| Segment earnings | \$ 124,874 |
| Interest and other income | 136 |
| General and administrative expense | (18,753) |
| Depreciation and amortization expense | (2,685) |
| Interest expense | (38,043) |
| Realized and unrealized gains on derivative instruments, net | 93,211 |
| Other, net | 9,833 |

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| | | |
|------------------------------|----|---------|
| Earnings before income taxes | \$ | 168,573 |
|------------------------------|----|---------|

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

CONDENSED CONSOLIDATING BALANCE SHEETS

(Unaudited)
(In Thousands)

| | March 31, 2011 | | | | | December 31, 2010 | | | | |
|--|-------------------|-------------------------|-------------------------------|------------------|------------------|-------------------|-------------------------|-------------------------------|------------------|------------------|
| | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Consolidated | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| ASSETS | | | | | | | | | | |
| Current assets: | | | | | | | | | | |
| Cash and cash equivalents | \$ 159,673 | \$ | \$ 3,635 | \$ | \$ 163,308 | \$ 216,580 | \$ 3 | \$ 1,562 | \$ | \$ 218,145 |
| Accounts receivable | 37,989 | 37,038 | 36,908 | (1,188) | 110,747 | 50,024 | 50,211 | 36,291 | (796) | 135,730 |
| Note receivable from subsidiary | 283,885 | | | (283,885) | | 250,183 | | | (250,183) | |
| Other current assets | 98,341 | 757 | 24,626 | | 123,724 | 112,287 | 755 | 14,766 | | 127,808 |
| Total current assets | 579,888 | 37,795 | 65,169 | (285,073) | 397,779 | 629,074 | 50,969 | 52,619 | (250,979) | 481,683 |
| Property and equipment, at cost | 7,538,054 | 1,237,066 | 2,111,716 | | 10,886,836 | 7,403,398 | 1,198,138 | 1,978,127 | | 10,579,663 |
| Less accumulated depreciation, depletion, and amortization | 5,654,680 | 1,061,738 | 1,244,905 | | 7,961,323 | 5,618,604 | 1,049,647 | 1,195,734 | | 7,863,985 |
| Net property and equipment | 1,883,374 | 175,328 | 866,811 | | 2,925,513 | 1,784,794 | 148,491 | 782,393 | | 2,715,678 |
| Investment in subsidiaries | 472,114 | | | (472,114) | | 436,772 | | | (436,772) | |
| Goodwill | 216,460 | 22,960 | 17,872 | | 257,292 | 216,460 | 22,960 | 17,422 | | 256,842 |
| Due from (to) parent and subsidiaries | 183,612 | 1,876 | (185,488) | | | 187,404 | (13,388) | (174,016) | | |

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| | | | | | | | | | | |
|-----------------------|--------------|------------|------------|--------------|---------------------|--------------|------------|------------|--------------|---------------------|
| Deferred income taxes | 336,571 | | | (55,919) | 280,652 | 330,309 | | | (46,288) | 284,021 |
| Other assets | 44,756 | 6 | 2,209 | | 46,971 | 44,936 | 6 | 2,222 | | 47,164 |
| | \$ 3,716,775 | \$ 237,965 | \$ 766,573 | \$ (813,106) | \$ 3,908,207 | \$ 3,629,749 | \$ 209,038 | \$ 680,640 | \$ (734,039) | \$ 3,785,388 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

| | | | | | | | | | | |
|--|------------|----------|-----------|------------|-------------------|------------|----------|-----------|----------|-------------------|
| Accounts payable and accrued liabilities | \$ 231,363 | \$ 2,022 | \$ 81,791 | \$ (1,188) | \$ 313,988 | \$ 204,295 | \$ 2,189 | \$ 46,512 | \$ (796) | \$ 252,200 |
|--|------------|----------|-----------|------------|-------------------|------------|----------|-----------|----------|-------------------|

| | | | | | | | | | | |
|-----------------------------------|---------|--|--|--|----------------|---------|--|--|--|----------------|
| Current portion of long-term-debt | 286,563 | | | | 286,563 | 287,092 | | | | 287,092 |
|-----------------------------------|---------|--|--|--|----------------|---------|--|--|--|----------------|

| | | | | | | | | | | |
|------------------------|--|--|---------|-----------|--|--|--|---------|-----------|--|
| Note payable to parent | | | 283,885 | (283,885) | | | | 250,183 | (250,183) | |
|------------------------|--|--|---------|-----------|--|--|--|---------|-----------|--|

| | | | | | | | | | | |
|---------------------------|---------|----|-------|--|----------------|--------|----|-------|--|---------------|
| Other current liabilities | 118,942 | 60 | 9,055 | | 128,057 | 80,328 | 36 | 9,718 | | 90,082 |
|---------------------------|---------|----|-------|--|----------------|--------|----|-------|--|---------------|

| | | | | | | | | | | |
|---------------------------|---------|-------|---------|-----------|----------------|---------|-------|---------|-----------|----------------|
| Total current liabilities | 636,868 | 2,082 | 374,731 | (285,073) | 728,608 | 571,715 | 2,225 | 306,413 | (250,979) | 629,374 |
|---------------------------|---------|-------|---------|-----------|----------------|---------|-------|---------|-----------|----------------|

| | | | | | | | | | | |
|----------------|-----------|--|--|--|------------------|-----------|--|--|--|------------------|
| Long-term debt | 1,583,701 | | | | 1,583,701 | 1,582,280 | | | | 1,582,280 |
|----------------|-----------|--|--|--|------------------|-----------|--|--|--|------------------|

| | | | | | | | | | | |
|-------------------|---------|-------|--------|--|----------------|---------|-------|--------|--|----------------|
| Other liabilities | 129,002 | 2,107 | 38,358 | | 169,467 | 122,390 | 2,119 | 38,878 | | 163,387 |
|-------------------|---------|-------|--------|--|----------------|---------|-------|--------|--|----------------|

| | | | | | | | | | | |
|-----------------------|-------|--------|--------|----------|---------------|-----|--------|--------|----------|---------------|
| Deferred income taxes | 1,810 | 76,338 | 38,808 | (55,919) | 61,037 | 577 | 67,365 | 35,906 | (46,288) | 57,560 |
|-----------------------|-------|--------|--------|----------|---------------|-----|--------|--------|----------|---------------|

| | | | | | | | | | | |
|-------------------|-----------|--------|---------|-----------|------------------|-----------|--------|---------|-----------|------------------|
| Total liabilities | 2,351,381 | 80,527 | 451,897 | (340,992) | 2,542,813 | 2,276,962 | 71,709 | 381,197 | (297,267) | 2,432,601 |
|-------------------|-----------|--------|---------|-----------|------------------|-----------|--------|---------|-----------|------------------|

| | | | | | | | | | | |
|----------------------|-----------|---------|---------|-----------|------------------|-----------|---------|---------|-----------|------------------|
| Shareholders' equity | 1,365,394 | 157,438 | 314,676 | (472,114) | 1,365,394 | 1,352,787 | 137,329 | 299,443 | (436,772) | 1,352,787 |
|----------------------|-----------|---------|---------|-----------|------------------|-----------|---------|---------|-----------|------------------|

| | | | | | | | | | | |
|--|--------------|------------|------------|--------------|---------------------|--------------|------------|------------|--------------|---------------------|
| | \$ 3,716,775 | \$ 237,965 | \$ 766,573 | \$ (813,106) | \$ 3,908,207 | \$ 3,629,749 | \$ 209,038 | \$ 680,640 | \$ (734,039) | \$ 3,785,388 |
|--|--------------|------------|------------|--------------|---------------------|--------------|------------|------------|--------------|---------------------|

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

(Unaudited)
(In Thousands)

Three Months Ended March 31,

| | 2011 | | | | 2010 | | | | | |
|---|-------------------|-------------------------|-------------------------------|-----------------|-------------------|-------------------------|-------------------------------|---------------|-----------------|----------------|
| | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Elimination | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Elimination | | |
| Revenues | | | | | | | | | | |
| Oil, natural gas, and NGL sales | \$ 117,013 | \$ 48,716 | \$ 36,842 | \$ | \$ 202,571 | \$ 142,456 | \$ 41,142 | \$ 38,131 | \$ 221,729 | |
| Interest and other | 807 | 56 | 12 | (311) | 564 | 1,684 | 9 | 6 | (1,563) | |
| Equity earnings (losses) in subsidiaries | 25,547 | | | (25,547) | 41,067 | | | (41,067) | | |
| Total revenues | 143,367 | 48,772 | 36,854 | (25,858) | 203,135 | 185,207 | 41,151 | 38,137 | (42,630) | 221,865 |
| Costs, expenses, and other: | | | | | | | | | | |
| Lease operating expenses | 20,536 | 2,988 | 8,333 | | 31,857 | 20,631 | 2,689 | 5,782 | | 29,102 |
| Other direct operating costs | 12,146 | 3,086 | 4,253 | | 19,485 | 11,224 | 2,614 | 2,449 | | 16,287 |
| General and administrative | 15,688 | 609 | 2,737 | | 19,034 | 15,648 | 548 | 2,557 | | 18,753 |
| Depreciation, depletion, and amortization | 36,074 | 12,092 | 19,397 | | 67,563 | 30,883 | 7,809 | 13,620 | | 52,312 |
| Interest expense | 36,500 | (68) | 1,759 | (311) | 37,880 | 37,303 | 857 | 1,446 | (1,563) | 38,043 |
| Realized and unrealized losses (gains) on derivative instruments, net | 35,796 | 405 | 45 | | 36,246 | (77,047) | (15,954) | (210) | | (93,211) |
| Other, net | 2,456 | (41) | (6,298) | | (3,883) | (2,704) | (52) | (5,238) | | (7,994) |
| Total costs, expenses, and other | 159,196 | 19,071 | 30,226 | (311) | 208,182 | 35,938 | (1,489) | 20,406 | (1,563) | 53,292 |
| Earnings (loss) before income | (15,829) | 29,701 | 6,628 | (25,547) | (5,047) | 149,269 | 42,640 | 17,731 | (41,067) | 168,573 |

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| taxes | | | | | | | | | | |
|--------------|------------|-----------|----------|-------------|------------|------------|-----------|-----------|-------------|-------------------|
| Income tax | (12,499) | 8,973 | 1,809 | | (1,717) | 40,107 | 15,786 | 3,518 | | 59,411 |
| Net earnings | | | | | | | | | | |
| (loss) | \$ (3,330) | \$ 20,728 | \$ 4,819 | \$ (25,547) | \$ (3,330) | \$ 109,162 | \$ 26,854 | \$ 14,213 | \$ (41,067) | \$ 109,162 |

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(11) CONDENSED CONSOLIDATING FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(Unaudited)
(In Thousands)

| | Three Months Ended March 31, | | | | | | | |
|---|------------------------------|-------------------------|-------------------------------|--------------|-------------------|-------------------------|-------------------------------|--------------|
| | 2011 | | | | 2010 | | | |
| | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Consolidated | Parent Company | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Consolidated |
| Operating activities: | | | | | | | | |
| Net earnings (loss) | \$ (28,877) | \$ 20,728 | \$ 4,819 | \$ (3,330) | \$ 68,095 | \$ 26,854 | \$ 14,213 | \$ 109,162 |
| Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities: | | | | | | | | |
| Depreciation, depletion, and amortization | 36,074 | 12,092 | 19,397 | 67,563 | 30,883 | 7,809 | 13,620 | 52,312 |
| Unrealized losses (gains) on derivative instruments, net | 49,200 | 525 | 59 | 49,784 | (68,289) | (14,759) | (194) | (83,242) |
| Deferred income tax | (12,100) | 8,973 | 1,410 | (1,717) | 39,390 | 15,786 | 3,518 | 58,694 |
| Other, net | 8,464 | 78 | (8,197) | 345 | 2,867 | 41 | (6,547) | (3,639) |
| Changes in operating assets and liabilities: | | | | | | | | |
| Accounts receivable | 12,034 | 13,173 | 616 | 25,823 | 15,699 | (2,038) | (18,716) | (5,055) |
| Other current assets | 2,983 | (2) | (1,790) | 1,191 | 12,064 | (154) | (14,784) | (2,874) |
| Accounts payable and accrued liabilities | (8,504) | (299) | 5,139 | (3,664) | (66,341) | (2,879) | 2,727 | (66,493) |
| Accrued interest and other current liabilities | 10,816 | (131) | (729) | 9,956 | 8,041 | (21) | (1,207) | 6,813 |
| Net cash provided (used) by operating activities | 70,090 | 55,137 | 20,724 | 145,951 | 42,409 | 30,639 | (7,370) | 65,678 |
| Investing activities: | | | | | | | | |
| Capital expenditures for property and equipment | (128,570) | (38,874) | (60,791) | (228,235) | (107,640) | (32,101) | (53,597) | (193,338) |
| Proceeds from sales of assets | 11,614 | | 403 | 12,017 | 157 | 40 | 10,569 | 10,766 |
| Net cash used by investing activities | (116,956) | (38,874) | (60,388) | (216,218) | (107,483) | (32,061) | (43,028) | (182,572) |
| Financing activities: | | | | | | | | |
| Proceeds from bank borrowings | | | 36,822 | 36,822 | | | 7,875 | 7,875 |
| Repayments of bank borrowings | | | (36,822) | (36,822) | | | (7,875) | (7,875) |
| Redemption and repurchase of notes | | | | | (151,938) | | | (151,938) |
| Net activity in investments from subsidiaries | (26,512) | (16,408) | 42,920 | | (40,289) | 1,839 | 38,450 | |
| Other, net | 16,471 | 142 | (1,307) | 15,306 | 13,392 | (794) | 2,829 | 15,427 |
| Net cash (used) provided by financing activities | (10,041) | (16,266) | 41,613 | 15,306 | (178,835) | 1,045 | 41,279 | (136,511) |

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| | | | | | | | | |
|--|------------|-----|-------|-------------------|------------|-------|---------|-------------------|
| Effect of exchange rate changes on cash | | | 124 | 124 | | | (38) | (38) |
| Net (decrease) increase in cash and cash equivalents | (56,907) | (3) | 2,073 | (54,837) | (243,909) | (377) | (9,157) | (253,443) |
| Cash and cash equivalents at beginning of period | 216,580 | 3 | 1,562 | 218,145 | 456,978 | 379 | 9,864 | 467,221 |
| Cash and cash equivalents at end of period | \$ 159,673 | \$ | 3,635 | \$ 163,308 | \$ 213,069 | \$ 2 | 707 | \$ 213,778 |

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

OVERVIEW

All expectations, forecasts, assumptions, and beliefs about our future financial results, condition, operations, strategic plans, and performance are forward-looking statements, as described in more detail under the heading "Forward-Looking Statements" below. Our actual results may differ materially because of a number of risks and uncertainties. Historical statements made herein are accurate only as of the date of filing of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission ("SEC"), and may be relied upon only as of that date. The following discussion and analysis should be read in conjunction with Forest's Condensed Consolidated Financial Statements and the Notes thereto, the information under the heading "Forward-Looking Statements" below, and the information included or incorporated by reference in Forest's 2010 Annual Report on Form 10-K under the headings "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless indicated otherwise, all references in this document to "Forest," "the Company," "we," "our," "ours," and "us" refer to Forest Oil Corporation and its consolidated subsidiaries.

Forest is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, natural gas, and natural gas liquids primarily in North America. Forest was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969. Our total estimated proved reserves as of December 31, 2010 were approximately 2,244 Bcfe of which 81% were in the United States, 17% were in Canada, and 2% were in Italy. Approximately 78% of our estimated proved reserves were natural gas as of December 31, 2010. We currently conduct our operations in three geographical segments: the United States, Canada, and International. See Note 10 to the Condensed Consolidated Financial Statements for additional information about our geographical segments. Our core operational areas are in the Texas Panhandle, the Western Canadian Sedimentary Basin in Alberta and British Columbia, the Eagle Ford Shale in South Texas, and the East Texas / North Louisiana area.

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

Table of Contents**RESULTS OF OPERATIONS**

The following table sets forth selected operating results for the quarters ended March 31, 2011 and 2010.

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2011 | 2010 |
| Oil, natural gas, and NGL sales volumes (MMcfe) | 38,281 | 37,522 |
| Oil, natural gas, and NGL sales (in thousands) | \$ 202,571 | \$ 221,729 |
| Realized equivalent sales price (per Mcfe) | \$ 5.29 | \$ 5.91 |
| Net earnings (loss) (in thousands) | \$ (3,330) | \$ 109,162 |
| Diluted earnings (loss) per common share | \$ (.03) | \$.97 |
| Adjusted EBITDA (in thousands) ⁽¹⁾ | \$ 148,570 | \$ 170,951 |

(1) In addition to reporting net earnings (loss) as defined under generally accepted accounting principles ("GAAP"), we also present Adjusted EBITDA, which is a non-GAAP performance measure. See " Reconciliation of Non-GAAP Measures" at the end of this Item 2 for a reconciliation of Adjusted EBITDA to reported net earnings (loss), which is the most directly comparable financial measure calculated and presented in accordance with GAAP.

Our reported oil, natural gas, and natural gas liquids ("NGL") sales volumes in the first quarter of 2011 increased 2% compared to the first quarter of 2010 and 6% pro forma for the sale of certain producing oil and gas properties in 2010. Oil, natural gas, and NGL revenues decreased \$19 million compared to the first quarter of 2010 due to a decrease in the price of natural gas partially offset by increases in the price of oil and NGLs. Net earnings decreased \$112 million to a net loss of \$3 million in 2011 compared to net earnings of \$109 million in 2010 primarily due to an unrealized loss on derivative instruments recorded in the first quarter of 2011 of \$50 million compared to an unrealized gain on derivative instruments recorded in the first quarter of 2010 of \$83 million. Adjusted EBITDA, which is a performance measure that we use to evaluate our operations that excludes the impact of certain non-cash items such as fair value adjustments on derivative instruments, decreased \$22 million to \$149 million in the first quarter of 2011 from \$171 million in the first quarter of 2010. The decrease was primarily due to the \$19 million decrease in oil, natural gas, and NGL revenues discussed above.

Management's analysis of the individual components of the changes in our quarterly results follows.

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Oil and Natural Gas Volumes and Revenues

Oil, natural gas, and NGL sales volumes, revenues, and average sales prices by location for the three months ended March 31, 2011 and 2010 are set forth in the table below.

| | Three Months Ended March 31, | | | | | | | |
|--------------------------------------|------------------------------|------------------|------------------|-------------------|-----------------------|------------------|------------------|-------------------|
| | 2011 | | | | 2010 | | | |
| | Natural Gas (MMcf) | Oil (MBbls) | NGLs (MBbls) | Total (MMcfe) | Natural Gas (MMcf) | Oil (MBbls) | NGLs (MBbls) | Total (MMcfe) |
| Sales volumes: | | | | | | | | |
| United States | 22,873 | 515 | 798 | 30,751 | 24,107 | 502 | 677 | 31,181 |
| Canada | 6,486 | 154 | 20 | 7,530 | 4,979 | 180 | 47 | 6,341 |
| Totals | 29,359 | 669 | 818 | 38,281 | 29,086 | 682 | 724 | 37,522 |
| Revenues (in thousands): | | | | | | | | |
| United States | \$ 86,762 | \$ 47,094 | \$ 32,454 | \$ 166,310 | \$ 119,095 | \$ 38,113 | \$ 27,114 | \$ 184,322 |
| Canada | 22,643 | 12,430 | 1,188 | 36,261 | 22,734 | 12,475 | 2,198 | 37,407 |
| Totals | \$ 109,405 | \$ 59,524 | \$ 33,642 | \$ 202,571 | \$ 141,829 | \$ 50,588 | \$ 29,312 | \$ 221,729 |
| Average sales price per unit: | | | | | | | | |
| United States | \$ 3.79 | \$ 91.44 | \$ 40.67 | \$ 5.41 | \$ 4.94 | \$ 75.92 | \$ 40.05 | \$ 5.91 |
| Canada | 3.49 | 80.71 | 59.40 | 4.82 | 4.57 | 69.31 | 46.77 | 5.90 |
| Totals | \$ 3.73 | \$ 88.97 | \$ 41.13 | \$ 5.29 | \$ 4.88 | \$ 74.18 | \$ 40.49 | \$ 5.91 |

Net oil and gas sales volumes in the first quarter 2011 increased 2% to 425 MMcfe per day from 417 MMcfe per day in the first quarter 2010. Net oil and gas sales volumes pro forma for the sale of certain producing oil and gas properties in 2010 increased 6% in the first quarter 2011 compared to the first quarter 2010. Oil and gas revenues were \$203 million in the first quarter 2011, a 9% decrease as compared to \$222 million in the first quarter 2010. The decrease in oil and gas revenues between the comparable three month periods was primarily due to a 10% decrease in average realized sales prices from \$5.91 per Mcfe in 2010 to \$5.29 per Mcfe in 2011, partially offset by the increase in sales volumes discussed above.

The revenues and average sales prices reflected in the table above exclude the effects of commodity derivative instruments as we have elected not to designate our derivative instruments as cash flow hedges. See "Realized and Unrealized Gains and Losses on Derivative Instruments" below for more information on gains and losses relating to our commodity derivative instruments.

Table of Contents***Production Expense***

The table below sets forth the detail of oil and gas production expense for the three months ended March 31, 2011 and 2010.

| | Three Months Ended March 31, | |
|-------------------------------------|---|------------------|
| | 2011 | 2010 |
| | (In Thousands, Except Per Mcfe Data) | |
| Production expense: | | |
| Lease operating expenses | \$ 31,857 | \$ 29,102 |
| Production and property taxes | 12,209 | 11,428 |
| Transportation and processing costs | 7,276 | 4,859 |
| Production expense | \$ 51,342 | \$ 45,389 |
| Production expense per Mcfe: | | |
| Lease operating expenses | \$.83 | \$.78 |
| Production and property taxes | .32 | .30 |
| Transportation and processing costs | .19 | .13 |
| Production expense per Mcfe | \$ 1.34 | \$ 1.21 |

Lease operating expenses

Lease operating expenses in the first quarter 2011 were \$32 million, or \$.83 per Mcfe, compared to \$29 million, or \$.78 per Mcfe, in the first quarter 2010. The \$3 million increase in lease operating expenses between the comparable periods was primarily due to an increase in winter-weather related costs and an increase in water disposal and compression costs.

Production and property taxes

Production and property taxes, which primarily consist of severance taxes paid on the value of the oil, natural gas, and NGLs sold, were 6.0% and 5.2% of oil, natural gas, and NGL sales for the three months ended March 31, 2011 and 2010, respectively. Normal fluctuations occur in the percentage between periods based upon the timing of approval of incentive tax credits in Texas, changes in tax rates, and changes in the assessed values of oil and gas properties and equipment for purposes of ad valorem taxes.

Transportation and processing costs

Transportation and processing costs in the first quarter 2011 were \$7 million, or \$.19 per Mcfe, compared to \$5 million, or \$.13 per Mcfe, in the first quarter 2010. Transportation and processing costs increased between comparable periods primarily due to higher natural gas transportation costs incurred in Canada.

Table of Contents**General and Administrative Expense**

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

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Stock-based compensation costs | \$ 8,664 | \$ 8,450 |
| Other general and administrative costs | 23,788 | 22,413 |
| General and administrative costs capitalized | (13,418) | (12,110) |
| General and administrative expense | \$ 19,034 | \$ 18,753 |

General and administrative expense was \$19 million in both the first quarter 2011 and 2010. The percentage of general and administrative costs capitalized under the full cost method of accounting was relatively consistent between the periods presented, ranging from 39% to 41%.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization expense ("DD&A") in the first quarter 2011 was \$68 million, or \$1.76 per Mcfe, compared to \$52 million, or \$1.39 per Mcfe, in the first quarter 2010. The increase in DD&A is primarily due to ceiling test write-downs (see Note 5 to the Condensed Consolidated Financial Statements for a description of the "ceiling test") recorded as of December 31, 2008 and March 31, 2009 as well as the sale of our Permian Basin assets in the fourth quarter of 2009, both of which contributed to our reduced DD&A rate of \$1.39 in the first quarter of 2010. As we have added proved oil and gas reserves to our depletable base at per-unit rates that have exceeded \$1.39 per Mcfe since the first quarter of 2010, our depletion rate has steadily increased.

Interest Expense

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

| | Three Months Ended March 31, | |
|----------------------------|---|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Interest costs | \$ 40,062 | \$ 40,825 |
| Interest costs capitalized | (2,182) | (2,782) |
| Interest expense | \$ 37,880 | \$ 38,043 |

Interest expense totaled \$38 million in the first quarter 2011 as well as the first quarter 2010. Average outstanding debt balances were consistent between periods as were average interest rates since all of our outstanding debt throughout 2010 and 2011, other than temporary borrowings under our revolving credit facility in Canada, were senior notes with fixed interest rates. In order to effectively reduce this concentration of fixed-rate debt, we have entered into fixed-to-floating interest rate swaps under which we have swapped, as of March 31, 2011, \$500 million in notional amount at an 8.5% fixed rate for an equal notional amount at a weighted-average rate equal to the 1-month LIBOR plus approximately 5.9%. We recognized realized gains under these interest rate swaps of \$3 million during each of the three month periods ended March 31, 2011 and 2010. These gains are recorded as realized gains on derivatives rather than as a reduction to interest expense since we have not elected to use hedge accounting. See Note 8 to the Condensed Consolidated Financial Statements for more information on our interest rate derivatives.

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

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

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Realized losses (gains) on derivatives, net: | | |
| Oil | \$ 2,423 | \$ 738 |
| Natural Gas | (17,952) | (7,186) |
| NGLs | 4,961 | |
| Interest | (2,970) | (3,521) |
| Subtotal realized gains on derivatives, net | (13,538) | (9,969) |
| Unrealized losses (gains) on derivatives, net: | | |
| Oil | 24,966 | 1,553 |
| Natural Gas | 11,802 | (81,175) |
| NGLs | 9,590 | |
| Interest | 3,426 | (3,620) |
| Subtotal unrealized losses (gains) on derivatives, net | 49,784 | (83,242) |
| Realized and unrealized losses (gains) on derivatives, net | \$ 36,246 | \$ (93,211) |

Other, Net

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

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Unrealized foreign currency exchange gains, net | \$ (7,820) | \$ (6,650) |
| Accretion of asset retirement obligations | 1,724 | 1,839 |
| Gain on debt extinguishment, net | | (4,578) |
| Other, net | 2,213 | 1,395 |
| | \$ (3,883) | \$ (7,994) |

Foreign Currency Exchange

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

Accretion of Asset Retirement Obligations

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Accretion of asset retirement obligations is the expense recognized to increase the carrying amount of the liability associated with our asset retirement obligations as a result of the passage of time. See Note 6 to the Condensed Consolidated Financial Statements for more information on our asset retirement obligations.

Table of Contents*Gain on Debt Extinguishment*

The net gain on debt extinguishment for the three months ended March 31, 2010 relates to the January 2010 redemption of all \$150 million of our 7³/₄% senior notes due 2014 at 101.292% of par. A net gain was recognized due to the write-off, at the time the notes were redeemed, of unamortized deferred gains resulting from the previous termination of interest rate swaps related to these senior notes. This gain was partially offset by the \$1.9 million redemption premium paid to redeem the notes. See Note 4 to the Consolidated Financial Statements for more information on our debt.

Current and Deferred Income Tax

| | Three Months Ended March 31, | |
|-------------------------|---|------------------|
| | 2011 | 2010 |
| | (In Thousands, Except Percentages) | |
| Current income tax | \$ | \$ 717 |
| Deferred income tax | (1,717) | 58,694 |
| Total income tax | \$ (1,717) | \$ 59,411 |

| | | |
|--------------------|-----|-----|
| Effective tax rate | 34% | 35% |
|--------------------|-----|-----|

Our combined U.S. and Canadian effective tax rate generally approximates 35% to 36% but will fluctuate based on the percentage of pre-tax income generated in the U.S. versus Canada. Our effective income tax rate for the three months ended March 31, 2011 and 2010 was 34% and 35%, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

Changes in the market prices for oil, natural gas, and NGLs directly impact our level of cash flow generated from operations. For the quarter ended March 31, 2011, natural gas accounted for approximately 77% of our total production and, as a result, our operations and cash flow are more sensitive to fluctuations in the market price for natural gas than to fluctuations in the market price for oil and NGLs. We employ a commodity hedging strategy as an attempt to moderate the effects of wide fluctuations in commodity prices on our cash flow. As of April 27, 2011, we had hedged, via commodity swaps and collar instruments, approximately 73 Bcfe of our total 2011 production and approximately 36 Bcfe of our total 2012 production, excluding outstanding commodity call options. This level of hedging will provide a measure of certainty of the cash flow that we will receive for a portion of our production in 2011 in 2012. In the future, we may determine to increase or decrease our hedging positions. See Item 3 "Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk," below for more information on our derivative contracts including commodity call options.

The other primary source of liquidity is our combined U.S. and Canadian credit facilities, which had an aggregate borrowing base of \$1.3 billion as of March 31, 2011. These facilities are used to fund daily operations and to fund acquisitions and refinance debt, as needed and if available. The credit facilities are secured by a portion of our assets and mature in June 2012. See "Bank Credit Facilities" below for further details. We had no amounts drawn on our credit facilities as of March 31, 2011 and April 27, 2011.

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The public and private capital markets have served as our primary source of financing to fund large acquisitions and other exceptional transactions. In the past, we have issued debt and equity in both the public and private capital markets. Our ability to access the debt and equity capital markets on economic terms is affected by general economic conditions, the domestic and global financial markets, the credit ratings assigned to our debt by independent credit rating agencies, our operational and financial performance, the value and performance of our equity and debt securities, prevailing commodity prices, and other macroeconomic factors outside of our control.

We also have engaged in asset dispositions as a means of generating additional cash to fund expenditures and enhance our financial flexibility. For example, during 2010, we sold certain non-strategic assets for approximately \$166 million and, during 2009, we sold certain non-strategic assets for approximately \$1.1 billion, a portion of which proceeds were used to pay off the outstanding balances under our credit facilities in 2009 and redeem our 7³/₄% senior notes due 2014 in January 2010.

We believe that our current cash and cash equivalents, cash flows provided by operating activities, and \$1.3 billion of funds available under our credit facilities will be sufficient to fund our normal recurring operating needs, anticipated capital expenditures, and our contractual obligations, including the redemption of our \$285 million principal amount of senior notes that are due in December 2011. However, if our revenue and cash flow decrease in the future as a result of a deterioration in domestic and global economic conditions or a significant decline in commodity prices, we may elect to reduce our planned capital expenditures. We believe that this financial flexibility to adjust our spending levels will provide us with sufficient liquidity to meet our financial obligations.

Bank Credit Facilities

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

Our availability under the Credit Facilities is governed by a borrowing base (the "Global Borrowing Base"), which was \$1.3 billion as of March 31, 2011. We currently have allocated \$1.155 billion to the borrowing base under the U.S. Facility and \$145 million to the borrowing base under the Canadian Facility. The determination of the Global Borrowing Base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of our oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders' customary practices for oil and gas loans. The available borrowing amount under the Credit Facilities could increase or decrease based on such redetermination. In April 2011, the lenders reaffirmed the borrowing base at \$1.3 billion, which will be effective until Lone Pine's IPO, at which time the borrowing base will be redetermined. In addition to the semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the Global Borrowing Base redetermined. The Global Borrowing Base is also subject to automatic adjustments if certain events occur.

As of March 31, 2011 and April 27, 2011, there were no outstanding borrowings under our Credit Facilities. We had used the Credit Facilities for approximately \$2 million in letters of credit at March 31, 2011.

From time to time, we engage in other transactions with a number of the lenders under the Credit Facilities. Such lenders or their affiliates may serve as underwriters or initial purchasers of our debt and equity securities, act as agent or directly purchase our production, or serve as counterparties to our commodity and interest rate derivative agreements. As of April 27, 2011, all of our derivative

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counterparties are lenders or their affiliates. Our obligations under our existing derivative agreements with our lenders are secured by the security documents executed by the parties under our Credit Facilities. See Part 3 "Quantitative and Qualitative Disclosures About Market Risk Commodity Price Risk," below for additional details concerning our derivative arrangements.

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

Historical Cash Flow

Net cash provided by operating activities, net cash used by investing activities, and net cash provided (used) by financing activities for the three months ended March 31, 2011 and 2010 were as follows:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Net cash provided by operating activities | \$ 145,951 | \$ 65,678 |
| Net cash used by investing activities | (216,218) | (182,572) |
| Net cash provided (used) by financing activities | 15,306 | (136,511) |
| Adjusted discretionary cash flow | 112,645 | 133,287 |

Net cash provided by operating activities is primarily affected by sales volumes and commodity prices, net of the effects of settlements of our derivative contracts and changes in working capital. The increase in net cash provided by operating activities in the three months ended March 31, 2011 compared to the same period of 2010 was primarily due to a decreased investment in net operating assets (i.e., working capital) partially offset by a decrease in the overall average realized commodity price.

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The components of net cash used by investing activities for the three months ended March 31, 2011 and 2010 were as follows:

| | Three Months Ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2011 | 2010 |
| | (In Thousands) | |
| Exploration, development, and leasehold acquisition costs ⁽¹⁾ | \$ (217,110) | \$ (191,754) |
| Proceeds from sale of assets | 12,017 | 10,766 |
| Other fixed asset costs | (11,125) | (1,584) |
| Net cash used by investing activities | \$ (216,218) | \$ (182,572) |

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

Net cash used by investing activities is primarily comprised of expenditures for the acquisition, exploration, and development of oil and gas properties net of proceeds from the dispositions of oil and gas properties and other capital assets. The increase in net cash used by investing activities in the three months ended March 31, 2011 compared to the same period of 2010 was primarily due to increased exploration and development costs during the three months ended March 31, 2011 as compared to the same period of 2010.

Net cash used by financing activities in the three months ended March 31, 2010 included the redemption of the 7³/₄% senior notes for \$152 million.

Adjusted discretionary cash flow, which is a non-GAAP liquidity measure that management uses to evaluate cash flow from operations before changes in working capital such as accounts receivable, accounts payable, and accrued liabilities, was \$113 million and \$133 million for the three months ended March 31, 2011 and 2010, respectively. The decrease in adjusted discretionary cash flow between the three-month periods was primarily driven by a decrease in oil, natural gas, and NGL revenues of \$19 million due to a decrease in the overall average realized price. Reference should be made to "Reconciliation of Non-GAAP Measures" at the end of this Item 2 for further explanation of this non-GAAP liquidity measure and reconciliation to net earnings (loss), the most directly comparable financial measure calculated and presented in accordance with GAAP.

Capital Expenditures

Expenditures for property exploration, development, and leasehold acquisitions were as follows:

| | Three Months Ended | |
|--|---------------------------|----------------|
| | March 31, | |
| | 2011 | 2010 |
| | (In Thousands) | |
| Exploration, development, and leasehold acquisition costs: | | |
| Direct costs: | | |
| Exploration and development | \$ 197,698 | \$ 197,443 |
| Leasehold acquisitions | 54,940 | 62,916 |
| Overhead capitalized | 13,418 | 12,110 |
| Interest capitalized | 2,182 | 2,782 |
| Total capital expenditures ⁽¹⁾ | \$ 268,238 | \$ 275,251 |

(1)

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Total capital expenditures include cash expenditures, accrued expenditures, and non-cash capital expenditures including stock-based compensation capitalized under the full cost method of accounting. Total capital expenditures also include changes in estimated discounted asset retirement obligations of \$.1 million and \$(9.6) million recorded during the three months ended March 31, 2011 and 2010, respectively.

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FORWARD-LOOKING STATEMENTS

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

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

estimates of our oil and natural gas reserves;

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

the proposed IPO of shares of Lone Pine and the related spin-off of the remaining shares of Lone Pine;

our future financial condition and results of operations;

our future revenues, cash flows, and expenses;

our access to capital and our anticipated liquidity;

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

our outlook on oil and gas prices;

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

our outlook on the costs and availability of drilling, completion, and production equipment, and related services and labor;

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

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

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

We believe the expectations and forecasts reflected in our forward-looking statements are reasonable, but we can give no assurance that they will prove to be correct. We caution you that these forward-looking statements can be affected by inaccurate assumptions and are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for

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and development, production, and sale of oil and gas. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading "Risk Factors" included or incorporated in Part I of our 2010 Annual Report on Form 10-K.

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

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

RECONCILIATION OF NON-GAAP MEASURES

Adjusted EBITDA

In addition to reporting net earnings (loss) as defined under GAAP, Forest also presents adjusted earnings before interest, income taxes, depreciation, depletion, and amortization ("Adjusted EBITDA"), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings (loss) before interest expense, income taxes, depreciation, depletion, and amortization, as well as other non-cash operating items such as unrealized losses (gains) on derivative instruments, unrealized foreign currency exchange gains, accretion of asset retirement obligations, and other items presented in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to, GAAP measurements, such as net earnings (loss) (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating interest, income taxes, depreciation, depletion, amortization, and other non-cash items from earnings, Forest believes the result is a useful measure across time in evaluating its fundamental core operating performance. Management also uses Adjusted EBITDA to manage its business, including in preparing its annual operating budget and financial projections. Forest believes that Adjusted EBITDA is also useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in similar industries. Forest's management does not view Adjusted EBITDA in isolation and also uses other measurements, such as net earnings (loss) and revenues to measure operating performance. The following table provides a reconciliation of net earnings (loss), the most directly comparable GAAP measure, to Adjusted EBITDA for the periods presented.

| | Three Months Ended March 31, | |
|--|---|----------------|
| | 2011 | 2010 |
| | (In Thousands) | |
| Net earnings (loss) | \$ (3,330) | \$ 109,162 |
| Income tax (benefit) expense | (1,717) | 59,411 |
| Unrealized losses (gains) on derivative instruments, net | 49,784 | (83,242) |
| Unrealized foreign currency exchange gains, net | (7,820) | (6,650) |
| Interest expense | 37,880 | 38,043 |
| Gain on debt extinguishment, net | | (4,578) |
| Accretion of asset retirement obligations | 1,724 | 1,839 |
| Depreciation, depletion, and amortization | 67,563 | 52,312 |
| Stock-based compensation | 4,486 | 4,654 |
| Adjusted EBITDA | \$ 148,570 | \$ 170,951 |

Table of Contents**Adjusted Discretionary Cash Flow**

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

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2011 | 2010 |
| | (In Thousands) | |
| Net cash provided by operating activities | \$ 145,951 | \$ 65,678 |
| Changes in working capital: | | |
| Accounts receivable | (25,823) | 5,055 |
| Other current assets | (1,191) | 2,874 |
| Accounts payable and accrued liabilities | 3,664 | 66,493 |
| Accrued interest and other current liabilities | (9,956) | (6,813) |
| Adjusted discretionary cash flow | \$ 112,645 | \$ 133,287 |

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

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

Swaps

In a typical commodity swap agreement, we receive the difference between a fixed price per unit of production and a price based on an agreed upon published, third-party index if the index price is lower than the fixed price. If the index price is higher, we pay the difference. By entering into swap agreements, we effectively fix the price that we will receive in the future for the hedged production.

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Our current swaps are settled in cash on a monthly basis. As of March 31, 2011, we had entered into the following swaps:

| Remaining Swap Term | Commodity Swaps | | | | | | NGLs (OPIS Refined Products) | | |
|----------------------------|-------------------------|-----------------|---------------------------|-------------------------|---------------|---------------------------|------------------------------|---------------|---------------------------|
| | Natural Gas (NYMEX HH) | | | Oil (NYMEX WTI) | | | | | |
| | Weighted Average Hedged | | | Weighted Average Hedged | | | Weighted Average Hedged | | |
| | Bbtu per Day | Price per MMBtu | Fair Value (In Thousands) | Barrels per Day | Price per Bbl | Fair Value (In Thousands) | Barrels per Day | Price per Bbl | Fair Value (In Thousands) |
| April 2011 - December 2011 | 150 | \$ 5.48 | \$ 37,338 | 1,000 | \$ 85.00 | \$ (6,275) | 5,000 | \$ 38.15 | \$ (16,044) |
| Calendar 2012 | 85 | 5.25 | 5,805 | | | | 2,000 | 45.22 | (3,256) |

Collars

We also enter into collar agreements with third parties. A collar agreement is similar to a swap agreement, except that we receive the difference between the floor price and the index price only if the index price is below the floor price and we pay the difference between the ceiling price and the index price only if the index price is above the ceiling price. As of March 31, 2011, we had entered into the following collars:

| Remaining Collar Term | Commodity Collars | | |
|----------------------------|-------------------|---|---------------------------|
| | Oil (NYMEX WTI) | | |
| | Barrels Per Day | Weighted Average Hedged Floor and Ceiling Price per Bbl | Fair Value (In Thousands) |
| April 2011 - December 2011 | 3,000 | \$ 75.00/90.20 | \$ (15,676) |

Commodity Options

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

| Instrument | Option Expiration | Underlying Swap Term | Commodity Options | | | | | |
|-----------------|-------------------|----------------------|---|-----------------|---------------------------|---|---------------|---------------------------|
| | | | Natural Gas (NYMEX HH) | | | Oil (NYMEX WTI) | | |
| | | | Underlying Swap Weighted Average Hedged | | | Underlying Swap Weighted Average Hedged | | |
| | | | Swap Bbtu per Day | Price per MMBtu | Fair Value (In Thousands) | Swap Bbls per Day | Price per Bbl | Fair Value (In Thousands) |
| Gas Swaptions | December 2011 | Calendar 2012 | 50 | \$ 5.28 | \$ (5,530) | | | |
| Oil Swaptions | December 2011 | Calendar 2012 | | | | 3,000 | 90.00 | (21,754) |
| Oil Swaption | December 2012 | Calendar 2013 | | | | 1,000 | 120.00 | (2,538) |
| Oil Call Option | Monthly in 2011 | Monthly in 2011 | | | | 1,000 | 90.00 | (5,426) |

The estimated fair value of all our commodity derivative instruments based on various inputs, including published forward prices, at March 31, 2011 was a net liability of approximately \$33.4 million.

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Long-Term Sales Contracts

As of March 31, 2011, we have a delivery commitment through October 31, 2014 of approximately 21 Bbtu/d of natural gas, which provides for a sales price equal to NYMEX Henry Hub less \$1.49, unless the Henry Hub price exceeds \$6.50 per MMBtu, at which point we share the amount of excess equally with the buyer.

Interest Rate Risk

We periodically enter into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within our debt portfolio. As of March 31, 2011, we had entered into the following fixed-to-floating interest rate swaps:

| Interest Rate Swaps | | | | |
|----------------------------|---|---|--|--|
| Remaining Swap Term | Notional Amount (In Thousands) | Weighted Average Floating Rate | Weighted Average Fixed Rate | Fair Value (In Thousands) |
| April 2011 - February 2014 | \$ 500,000 | 1 month LIBOR + 5.89% | 8.50% | \$ 15,585 |

The estimated fair value of all our interest rate derivative instruments was a net asset of approximately \$15.6 million as of March 31, 2011.

Derivative Fair Value Reconciliation

The table below sets forth the changes that occurred in the fair values of our open derivative contracts during the three months ended March 31, 2011, beginning with the fair value of our derivative contracts on December 31, 2010. It has been our experience that commodity prices are subject to large fluctuations, and we expect this volatility to continue. Due to the volatility of oil and natural gas prices, the estimated fair values of our commodity derivative instruments are subject to large fluctuations from period to period. Actual gains and losses recognized related to our commodity derivative instruments will likely differ from those estimated at March 31, 2011 and will depend exclusively on the price of the commodities on the specified settlement dates provided by the derivative contracts.

| Fair Value of Derivative Contracts | | | |
|---|-----------------------|----------------------|--------------|
| | Commodity | Interest Rate | Total |
| | (In Thousands) | | |
| As of December 31, 2010 | \$ 13,002 | \$ 19,011 | \$ 32,013 |
| Net decrease in fair value | (35,790) | (456) | (36,246) |
| Net contract gains realized | (10,568) | (2,970) | (13,538) |
| As of March 31, 2011 | \$ (33,356) | \$ 15,585 | \$ (17,771) |

Table of Contents**Interest Rates on Borrowings**

The following table presents principal amounts and related interest rates by year of maturity for Forest's debt obligations at March 31, 2011.

| | 2011 | 2013 | 2014 | 2019 | Total |
|--|------------|-------|------------|--------------|--------------|
| (Dollar Amounts in Thousands) | | | | | |
| Long-term debt: | | | | | |
| Principal | \$ 285,000 | \$ 12 | \$ 600,000 | \$ 1,000,000 | \$ 1,885,012 |
| Fixed interest rate | 8.00% | 7.00% | 8.50% | 7.25% | 7.76% |
| Effective interest rate ⁽¹⁾ | 7.25% | 7.49% | 9.47% | 7.24% | 7.95% |

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

Foreign Currency Exchange Risk

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

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

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

Our Chief Executive Officer, H. Craig Clark, and our Chief Financial Officer, Michael N. Kennedy, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the quarterly period ended March 31, 2011 (the "Evaluation Date"). Based on this evaluation, they believe that as of the Evaluation Date our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms; and (ii) is accumulated and communicated to Forest's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during our quarterly period ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

In August 2007, Forest sold all of its Alaska assets to Pacific Energy Resources Ltd. and its related entities. On March 9, 2009, Pacific Energy Resources Ltd. filed for bankruptcy. On March 7, 2011, Pacific Energy Resources Ltd, Pacific Energy Alaska Holdings LLC, and Pacific Energy Alaska Operating LLC filed suit against Forest Oil Corporation and Forest Alaska Holdings LLC in United States Bankruptcy Court in the District of Delaware. In this suit, the plaintiffs claim that, at the time Forest sold Pacific Energy Resources Ltd its Alaska assets in August 2007, those assets were overvalued due to Forest's alleged nondisclosure, fraud and negligent misrepresentations and that, as a result, the sales transaction rendered Pacific Energy Resources Ltd insolvent. Under certain sections of the federal bankruptcy code, the plaintiffs allege that the sales transaction was a "constructive fraudulent transfer" and ask the Court to avoid, or set aside, same. The plaintiffs also allege violations of certain California securities laws. The plaintiffs seek to recover over \$250 million in value from Forest as a result of this lawsuit. The plaintiffs have not yet served Forest with the suit. Although we are unable to predict the final outcome of this case, we believe that the allegations of this lawsuit are without merit, and we intend to vigorously defend the action.

Other than as set forth above, there have been no material changes to the disclosure included in Part I, Item 3, of the Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

We are a party to various other lawsuits, claims, and proceedings in the ordinary course of business. These proceedings are subject to uncertainties inherent in any litigation, and the outcome of these matters is inherently difficult to predict with any certainty. We believe that the amount of any potential loss associated with these proceedings would not be material to our consolidated financial position; however, in the event of an unfavorable outcome, the potential loss could have an adverse effect on our results of operations and cash flow.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*Unregistered Sales of Equity Securities*

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

Issuer Purchases of Equity Securities

The table below sets forth information regarding repurchases of our common stock during the first quarter 2011. The shares repurchased represent shares of our common stock that employees elected to surrender to Forest to satisfy their tax withholding obligations upon the vesting of shares of restricted stock and phantom stock units that are settled in shares. Forest does not consider this a share buyback program.

| Period | Total # of Shares Purchased | Average Price Paid Per Share | Total # of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum # (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|---------------------|-----------------------------------|------------------------------------|--|--|
| January 2011 | 4,190 | \$ 37.44 | | |
| February 2011 | 897 | 38.12 | | |
| March 2011 | 618 | 36.14 | | |
| First Quarter Total | 5,705 | \$ 37.41 | | |

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Item 6. EXHIBITS

- (a) Exhibits.
- 3.1 Restated Certificate of Incorporation of Forest Oil Corporation dated October 14, 1993, incorporated herein by reference to Exhibit 3(i) to Form 10-Q for Forest Oil Corporation for the quarter ended September 30, 1993 (File No. 0-4597).
 - 3.2 Certificate of Amendment of the Restated Certificate of Incorporation, dated as of July 20, 1995, incorporated herein by reference to Exhibit 3(i)(a) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
 - 3.3 Certificate of Amendment of the Certificate of Incorporation, dated as of July 26, 1995, incorporated herein by reference to Exhibit 3(i)(b) to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 1995 (File No. 0-4597).
 - 3.4 Certificate of Amendment of the Certificate of Incorporation dated as of January 5, 1996, incorporated herein by reference to Exhibit 3(i)(c) to Forest Oil Corporation Registration Statement on Form S-2 (File No. 33-64949).
 - 3.5 Certificate of Amendment of the Certificate of Incorporation dated as of December 7, 2000, incorporated herein by reference to Exhibit 3(i)(d) to Form 10-K for Forest Oil Corporation for the year ended December 31, 2000 (File No. 001-13515).
 - 3.6 Bylaws of Forest Oil Corporation Restated as of February 14, 2001, as amended by Amendments No. 1, No. 2, No. 3, and No. 4, incorporated herein by reference to Exhibit 3.1 to Form 10-Q for Forest Oil Corporation for the quarter ended June 30, 2008 (File No. 001-13515).
 - 10.1 Amendment No. 3 to the Forest Oil Corporation Stock Incentive Plan, incorporated herein by reference to Exhibit 10.1 to Form 8-K for Forest Oil Corporation filed February 18, 2011.
 - 10.2 Credit Agreement, dated as of March 18, 2011, among Lone Pine Resources Inc., as Parent, Canadian Forest Oil Ltd., as Borrower, The Lenders Party Thereto, The Toronto Dominion Bank and Bank of Montreal, as Co-Syndication Agents, The Bank of Nova Scotia and Wells Fargo Financial Corporation Canada, as Co-Documentation Agents, and JPMorgan Chase Bank, N.A., Toronto Branch, as Administrative Agent, incorporated herein by reference to Exhibit 10.1 to Form 8-K of Forest Oil Corporation filed March 22, 2011.
 - 10.3 First Amendment dated April 29, 2011 to Credit Agreement dated as of March 18, 2011 among Lone Pine Resources Inc., as Parent, Canadian Forest Oil Ltd., as Borrower, The Lenders Party Thereto, The Toronto Dominion Bank and Bank of Montreal, as Co-Syndication Agents, The Bank of Nova Scotia and Wells Fargo Financial Corporation Canada, as Co-Documentation Agents, and JPMorgan Chase Bank, N.A., Toronto Branch, as Administrative Agent incorporated herein by reference to Exhibit 10.1 to Form 8-K of Forest Oil Corporation filed May 2, 2011.
 - 31.1* Certification of Principal Executive Officer of Forest Oil Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.
 - 31.2* Certification of Principal Financial Officer of Forest Oil Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.

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32.1⁺ Certification of Principal Executive Officer of Forest Oil Corporation pursuant to 18 U.S.C. §1350.

32.2⁺ Certification of Principal Financial Officer of Forest Oil Corporation pursuant to 18 U.S.C. §1350.

101.INS⁺⁺ XBRL Instance Document.

101.SCH⁺⁺ XBRL Taxonomy Extension Schema Document.

101.CAL⁺⁺ XBRL Taxonomy Calculation Linkbase Document.

101.LAB⁺⁺ XBRL Label Linkbase Document.

101.PRE⁺⁺ XBRL Presentation Linkbase Document.

101.DEF⁺⁺ XBRL Taxonomy Extension Definition.

*

Filed herewith.

+

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

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The documents formatted in XBRL (Extensible Business Reporting Language) and attached as Exhibit 101 to this report are deemed not filed as part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act, and otherwise are not subject to liability under these sections.

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Exhibit Index

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