

## NON-GAAP FINANCIAL MEASURES

### Adjusted Net Earnings

In addition to reporting net earnings as defined under generally accepted accounting principles (GAAP), Forest also presents adjusted net earnings, which is a non-GAAP performance measure. Adjusted net earnings consists of net earnings after adjustment for those items shown in the table below. Adjusted net earnings does not represent, and should not be considered an alternative to GAAP measurements, such as net earnings, (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items shown below, Forest believes that the measure is 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 net earnings in isolation and also uses other measurements, such as net earnings and revenues to measure operating performance. The following table provides a reconciliation of net earnings, the most directly comparable GAAP measure, to adjusted net earnings for the periods presented (in thousands):

	Forest Remainco		Total Company	
	Three Months Ended June 30,			
	2011	2010	2011	2010
Net earnings attributable to Forest Oil Corporation	\$ 33,385	\$ 36,131	\$ 38,910	\$ 33,254
Unrealized (gains) losses on derivative instruments, net of tax	(22,860)	5,984	(26,631)	5,984
Unrealized foreign currency exchange losses, net of tax	-	-	30,964	8,924
Realized foreign currency exchange gains incurred on the repayment of intercompany indebtedness, net of tax	-	-	(28,837)	-
Legal proceeding settlement, net of tax	4,149	-	4,149	-
Canadian dividend tax, net of tax	18,460	-	18,460	-
Change in valuation allowance on deferred tax assets associated with Lone Pine, net of tax	-	-	4,116	-
	<u>\$ 33,134</u>	<u>\$ 42,115</u>	<u>\$ 41,131</u>	<u>\$ 48,162</u>
Earnings attributable to participating securities and other adjustments	<u>(617)</u>	<u>(830)</u>	<u>(911)</u>	<u>(799)</u>
	<u>\$ 32,517</u>	<u>\$ 41,285</u>	<u>\$ 40,220</u>	<u>\$ 47,363</u>
Weighted average number of diluted shares outstanding	<u>112,028</u>	<u>111,314</u>	<u>112,176</u>	<u>111,456</u>
Adjusted diluted earnings per common share attributable to Forest Oil Corporation	<u>\$ 0.29</u>	<u>\$ 0.37</u>	<u>\$ 0.36</u>	<u>\$ 0.42</u>

Adjusted EBITDA

In addition to reporting net earnings as defined under GAAP, Forest also presents net earnings before interest, income taxes, depreciation, depletion, and amortization (adjusted EBITDA), which is a non-GAAP performance measure. Adjusted EBITDA consists of net earnings after adjustment for those items shown in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to, GAAP measurements such as net earnings (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items shown below, Forest believes the measure is useful in evaluating its fundamental core operating performance. Forest also believes that adjusted EBITDA is 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 uses adjusted EBITDA to manage its business, including in preparing its annual operating budget and financial projections. Forest's management does not view adjusted EBITDA in isolation and also uses other measurements, such as net earnings and revenues to measure operating performance. The following table provides a reconciliation of net earnings, the most directly comparable GAAP measure, to adjusted EBITDA for the periods presented (in thousands):

	Forest Remainco		Total Company	
	Three Months Ended June 30, 2011			
	2011	2010	2011	2010
Net earnings attributable to Forest Oil Corporation	\$ 33,385	\$ 36,131	\$ 38,910	\$ 33,254
Interest expense	36,516	35,332	38,842	37,109
Income tax expense	43,986	20,684	51,708	21,058
Depreciation, depletion, and amortization	52,360	46,072	73,322	62,446
Accretion of asset retirement obligations	1,508	1,651	1,787	1,909
Unrealized (gains) losses on derivative instruments, net	(35,774)	9,494	(40,904)	9,494
Unrealized foreign currency exchange gains, net	-	-	36,360	10,604
Realized foreign currency exchange gains incurred on the repayment of intercompany indebtedness	-	-	(33,892)	-
Stock-based compensation	3,604	4,721	3,642	5,077
Legal proceeding settlement	6,500	-	6,500	-
Adjusted EBITDA	\$ 142,085	\$ 154,085	\$ 176,275	\$ 180,951

Adjusted Discretionary Cash Flow

In addition to reporting net 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 net cash provided by operating activities after adjustment for those items shown in the table below. This measure does not represent, and should not be considered an alternative to GAAP measurements, such as net cash provided by operating activities (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. Forest's 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 before changes in working capital, which fluctuates due to the timing of collections of receivables and the settlements of liabilities, and other items. Forest's management uses adjusted discretionary cash flow to manage its business, including in preparing its annual

operating budget and financial projections. This measure does not represent the residual cash flow available for discretionary expenditures. The following table provides a reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to adjusted discretionary cash flow for the periods presented (in thousands):

	Forest Remainco		Total Company	
	Three Months Ended June 30,			
	2011	2010	2011	2010
Net cash provided by operating activities	\$ 75,461	\$ 149,326	\$ 104,932	\$ 180,281
Changes in working capital:				
Accounts receivable	(12,633)	(7,620)	(11,406)	(10,955)
Other current assets	(10,607)	(9,132)	(12,008)	(17,231)
Accounts payable and accrued liabilities	5,478	(25,980)	8,789	(19,916)
Accrued interest and other current liabilities	14,128	10,813	13,843	10,429
Canadian dividend tax <sup>(1)</sup>	28,921	-	28,921	-
Legal proceeding settlement <sup>(1)</sup>	6,500	-	6,500	-
Adjusted discretionary cash flow	<u>\$ 107,248</u>	<u>\$ 117,407</u>	<u>\$ 139,571</u>	<u>\$ 142,608</u>

<sup>(1)</sup> The Canadian dividend tax and legal proceeding settlement are non-recurring cash-settled items. Including the effect of these items, adjusted discretionary cash flow for the three months ended June 30, 2011, for Forest Remainco and Total Company, would have been \$72 million and \$104 million, respectively.

### Net Debt

In addition to reporting total debt as defined under GAAP, Forest also presents net debt, which is a non-GAAP debt measure. Net debt consists of the principal amount of debt adjusted for cash and cash equivalents at the end of the period. Forest's management uses net debt to assess Forest's indebtedness. The following table sets forth the components of net debt as of the dates presented (in thousands):

	Forest Remainco		Total Company	
	June 30, 2011			
	Principal	Book*	Principal	Book*
Credit facilities	\$ -	\$ -	\$ 280,973	\$ 280,973
8% Senior notes due 2011	285,000	286,031	285,000	286,031
7% Senior subordinated notes due 2013	12	12	12	12
8 1/2% Senior notes due 2014	600,000	584,677	600,000	584,677
7 1/4% Senior notes due 2019	1,000,000	1,000,449	1,000,000	1,000,449
Total debt	<u>1,885,012</u>	<u>1,871,169</u>	<u>2,165,985</u>	<u>2,152,142</u>
Less: cash and cash equivalents	<u>474,139</u>	<u>474,139</u>	<u>479,149</u>	<u>479,149</u>
Net debt	<u>\$ 1,410,873</u>	<u>\$ 1,397,030</u>	<u>\$ 1,686,836</u>	<u>\$ 1,672,993</u>

\* Book amounts include the principal amount of debt adjusted for unamortized gains on interest rate swap terminations of \$0.4 million and unamortized net discounts on the issuance of certain senior notes of \$(14.2) million each as of June 30, 2011.