# COMMITMENT

FOREST OIL CORPORATION 2001 ANNUAL REPORT

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## COMMITMENT

From the people we employ to the wells we drill, Forest Oil Corporation is dedicated to being the best oil and gas company in the industry. Our 2001 Annual Report highlights our *"Commitment"* to strategic excellence, superior operational performance and proven financial discipline. Our steadfast determination allowed Forest to deliver significant accomplishments in 2001, and positioned us to capitalize in the years ahead on long-term exceptional growth opportunities for Forest and our shareholders.

## GLOSSARY OF TERMS

Many terms used in this Annual Report are unique to the oil and gas business. Listed below are several terms used in this annual report:

**Bbls, MBbls, MMBbls, and Bbbls** - Barrels, thousands, millions, and billion of barrels of oil, condensate, or natural gas liquids.

**Mcf, MMcf, Bcf, and Tcf** - Thousand, million, billion, and trillion cubic feet of natural gas.

**Mcfe, MMcfe, Bcfe, and Tcfe -** Thousand, million, billion, and trillion equivalent cubic feet of natural gas (1 barrel of oil = 6 mcf of natural gas).



This Annual Report may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1993 and Section 21E of the Securities Exchange Act of 1934. Statements that address activities, events and outcomes, and matters that Forest plans, anticipates, expects, intends, believes, budgets or projects will, should or may occur in the future are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements. These risks include, but are not limited to, commodity price volatility, drilling and other operating risks, the uncertainty inherent in estimating proved reserves and projecting future rates of production, general economic conditions and other risk factors that are described in our 2001 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Forest Oil Corporation and its subsidiaries are engaged in the exploration, acquisition, development, production and marketing of natural gas and crude oil in North America and in selected international locations. Headquartered in Denver, Colorado, Forest's principal reserves and producing properties are located in the United States in Alaska, Louisiana, Oklahoma, Texas, Utah, Wyoming and the Gulf of Mexico, and in Canada in Alberta and the Northwest Territories. With roots dating back to 1916 in the Bradford Oil Field of northwestern Pennsylvania, Forest was incorporated in 1924 and has been publicly held since 1969.

Today, Forest is a $1.8 billion company that ranks as one of the largest independent exploration and production companies in the United States. Central to our success is an operational strategy anchored by a strong presence in mature as well as high potential areas, an aggressive exploration program, implementation of advanced technology, and a focus on production and reserve replacement. Our commitment to the discovery, development and commercialization of natural gas is reinforced by the world's increasing demand for the commodity as the preferred source of energy across the globe. Forest is dedicated to being a major player in the business of supplying that energy.

Over the past several years, Forest has exhibited foresight and ingenuity in our strategic acquisitions and partnerships, and in the development and implementation of an ambitious exploration program. Our commitment to growth has brought success in enviable fields north of the 60th parallel in both Alaska and Canada as well as in South Africa. We have continued to maintain a strong presence in the Gulf of Mexico, and in prime onshore locations in mature producing basins in the lower 48 states. Forest closed 2001 with production of 172 Bcfe and estimated proved reserves of 1,546 Bcfe, replacing 259 percent of production. We exhibited over a 20 percent increase in net asset value per share in 2001, netting our shareholders the second highest ranking in the industry. Forest stands out in our sector by focusing on exploration activities. In 2001 we drilled 120 wells of which 108 were considered exploration. The average well depth drilled was greater than 13,000 feet.

*Alaska Business Unit*
*Cook Inlet, Alaska*
*Osprey Platform Rig Operator*

# LETTER TO SHAREHOLDERS

*Robert S. Boswell*
*Chairman of the Board and*
*Chief Executive Officer*

Dear Fellow Shareholders:

We find ourselves living and working in unprecedented times as we enter into year three of this millennium. We look at things a little differently today than we did one year ago. The employees of Forest Oil Corporation understand more deeply than ever the importance of our commitment to the principles and ideals that have steered this Company through successful as well as challenging cycles for more than 85 years. Resolve is apparent in our Company, paired with a heightened sense of purpose.

Our mission to be the best at what we do influences our decisions and drives our operations. Whereas other companies may share our unrelenting desire to produce results, improve value and create a challenging work environment, we strive to distinguish ourselves by our level of commitment to achieve those goals. Challenges that test one's determination are inevitable from time to time in our business. While they make our goals harder to achieve, they make them all the more valued when attained.

Our exploration, development and acquisition objectives and strategies that have been in place since 1995 are coming to fruition, positioning Forest for years of growth. Proved reserves have grown from 301 Bcfe in 1995 to 1,546 Bcfe in 2001. Annual production has increased from 40 Bcfe to 172 Bcfe during the same period. Since 1995, we have strengthened our balance sheet and taken our overall drilling success rate to a Company high. Growth has been through acquisition as well as exploration, with greater emphasis placed on the latter because we believe exploration exposes the Company to greater opportunities for significant increases in value.

The year 2001 was a remarkable year for Forest Oil and for its shareholders in terms of reserve growth and value added. We discovered 445 Bcfe of proved reserves that replaced 259 percent of 2001 production in North America at a cost of $1.27 per Mcfe totally through the drillbit. We also completed the integration of a significant merger, began repositioning our asset portfolio, made important changes in our management team and fortified our capital structure. These accomplishments, combined with high hydrocarbon prices, enabled Forest to achieve record cash flows. Most importantly, our net asset value per share grew for the fifth consecutive year.

The Forest senior management team and business unit managers represent one of the most talented and energized core of leaders we have had in the history of this Company. Last September Craig Clark joined Forest as Chief Operating Officer and President. Prior to his appointment, Craig served as Executive Vice President of U.S. Operations at Apache Corporation. Over a 12-year period with Apache, Craig held senior management positions in exploration and production, marketing, risk management, environmental health and safety, and purchasing. He also served as Chairman and CEO of ProEnergy, an Apache gas marketing joint venture with Oryx and Pioneer Resources. He brings a wealth of industry experience to our operations, and we are delighted to have him on board. Art Eastly, a native of Alberta, Canada, retired as President of Canadian Forest Oil Ltd. on December 31st, having served in that capacity since Canadian Forest was established in 1996. During Art's tenure Forest built its investment in Canada and established one of the premier exploration positions in the Canadian Foothills and the Northwest Territories. We wish Art and his wife, Selma, all the best.

Exciting successes came in 2001 in our high-impact frontier exploration acreage north of the 60th parallel in Alaska and Canada, as well as in the mature areas of the lower 48. We closed 2001 with four of our six Business Units meeting their targets for increased production and reserve replacements, and refined our reserve portfolio through selected asset sales.

Our Alaska Business Unit continues to be a highlight in our corporate portfolio. The Cook Inlet in Alaska is dotted with several major oil and gas fields that were discovered in the 1960's. The advent of advanced technology and a more favorable economic climate have once again made this area conducive to exploration. As one of the largest leaseholders in the Cook Inlet, Forest has established an outstanding position and a desirable prospect inventory in an area with significant potential.

Three wells were drilled from our Osprey Platform in the Cook Inlet in 2001 and a fourth is currently drilling to help delineate our discovery named Redoubt Shoal. Redoubt #4 will be the deepest directional well drilled in the Cook Inlet by any company, and will help us define the eastern limit of the field. Another highly successful well, the K-13 RD horizontal well in the Trading Bay Field, was producing in excess of 6,000 Bbls/d at year-end, one of the highest producing oil wells in the history of the Cook Inlet. Forest's other acreage in the Cook Inlet presently covers eight prospects that have excellent exploration potential in this highly prolific area.

North of the 60th parallel in Canada, we have interests in more than 20 significant discovery licenses in the MacKenzie Delta and the Beaufort Sea. These are long-term projects with harsh climate, rugged terrain and remoteness, but hold exciting possibilities. Even though the area is pipeline constrained, the abundance of resources and the growing demand for energy in Canada and the United States, have led several groups to give serious consideration to building the infrastructure required to deliver natural gas to market. We believe a pipeline may be built within five to seven years, a development that would greatly enhance our efforts to bring resources in the far north into commercialization. This would add to our existing production from the Fort Liard area in the southern portion of the Northwest Territories where we recently entered into an exploration joint venture on a portion of the 457,000 gross acres we hold in the region. Once a pipeline from the MacKenzie Delta and Beaufort Sea is in place, the estimated resource potential for this area promises to make the Forest acreage in this vast frontier valuable for decades.

During 2001, we added 39,000 gross acres to our Canadian Foothills play and drilled nine wells in the area with a 100 percent success rate. Ten wells were in progress at year-end with additional drilling to continue through the second quarter of 2002. We anticipate recent acreage acquisitions, our seismic program, and joint venture arrangements to lead to an active winter drilling season in early 2002. With a 246 percent reserve replacement from our 2001 Canadian exploration program, we expect the production levels to grow considerably in 2002. The completion of plant construction by the end of the first quarter of this year will also enhance our ability to deliver gas to market from this region.

We will continue in 2002 to focus our efforts in the Western Region Business Unit on a drilling program that achieved a 96 percent success rate in 2001, and will complement those efforts with exploitation drilling and exploration in the areas of greatest opportunity.

In South Africa, the impetus to move toward commercialization continues to grow with the objective of signing two off-take agreements in 2002. A third party engineering study substantiates the resource potential for natural gas off the west coast of South Africa and market

*Alaska Business Unit*
*Cook Inlet, Alaska*
*Osprey Platform*

*International Business Unit*
*Pride Rig*
*Ibhubesi Prospect, South Africa*

studies lead us to believe that this South African asset will be a source of value and growth for us for many years.

We have dedicated almost half of our planned capital spending in 2002 to two sizeable projects. These expenditures include the development project in Redoubt Shoal in Alaska and a joint deepwater development project, Lost Ark, in the Gulf of Mexico. Both capital investments are designed to increase production levels in those regions commencing in late 2002. As a result, we anticipate that our 2002 company-wide production volumes will be below 2001 levels. We firmly believe, however, that our investment strategy will reap impressive benefits commencing in 2003 when we expect production levels to grow significantly. Further, our projected 2003 production is anticipated to include significant long-lived Alaskan oil production from Redoubt Shoal, which is expected to replace short-lived Gulf of Mexico natural gas reserves in our production portfolio. In 2002, we will exercise capital discipline to contain costs and to insure that we have sufficient financial flexibility to handle opportunities and challenges that may arise in this down cycle.

We anticipate the current down cycle in hydrocarbon pricing to continue in 2002. Through prudent financial planning, we have positioned our balance sheet to take advantage of emerging opportunities that sometimes occur during these cycles in our industry.

Nothing insures the attainment of a goal like the pledge to reach it. Forest Oil represents a collection of over 500 people committed to building value for our shareholders and meeting our customers' energy demands. We are further committed to keeping the environment clean, our operations safe and our employees challenged.

Vince Lombardi, acknowledged by many as the greatest football coach of all time, said it best: "Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work." I assure you that the employees of Forest Oil Corporation are dedicated to hard work at every level and that we pledge to apply the best of ourselves to the tasks at hand.

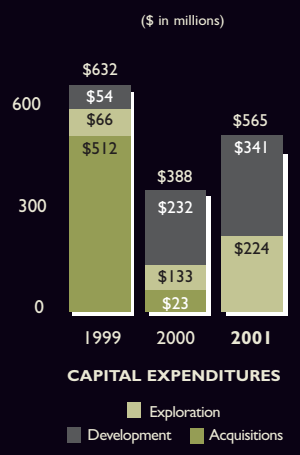
Robert S. Boswell
Chairman and Chief Executive Officer
March 12, 2002

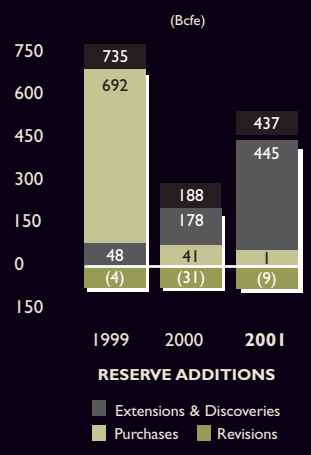
# SELECTED FINANCIAL DATA

*On December 7, 2000, Forest Oil Corporation completed its merger with Forcenergy Inc. The merger was accounted for as a pooling of interests. Under this method of accounting, the recorded assets and liabilities of Forest and Forcenergy were carried forward to the combined company at their recorded amounts, and income of the combined company for the year ended December 31, 2000 included income of Forest and Forcenergy. As of December 31, 1999, Forcenergy effected a reorganization and implemented fresh start reporting. As such, the results of operations of Forcenergy prior to December 31, 1999 are not included in the financial statements of the combined company. Financial highlights and measurements presented herein have been prepared on this basis.*

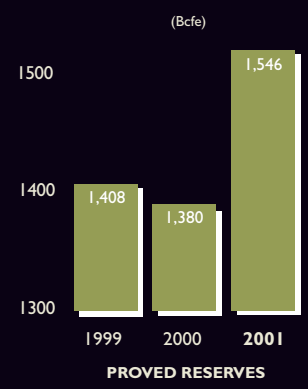
| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| **Revenue and Earnings** (in thousands except per share amounts) | | | | | |
| Total Revenue | $1,018,379 | 913,058 | 360,124 | 324,780 | 342,849 |
| Oil and Gas Sales | $ 714,852 | 624,925 | 193,841 | 173,701 | 158,450 |
| Net Earnings (Loss) | $ 103,743 | 130,608 | 19,043 | (191,590) | (9,270) |
| Basic Earnings (Loss) Per Share | $ 2.18 | 2.73 | 0.79 | (9.37) | (0.56) |
| Diluted Earnings (Loss) Per Share | $ 2.11 | 2.64 | 0.79 | (9.37) | (0.54) |
| **Balance Sheet Data** (in thousands) | | | | | |
| Current Assets | $ 201,965 | 238,828 | 231,325 | 61,376 | 88,560 |
| Total Assets | $1,796,369 | 1,752,378 | 1,474,689 | 759,736 | 647,782 |
| Long-Term Debt | $ 594,178 | 622,234 | 686,153 | 505,450 | 254,760 |
| Shareholders' Equity | $ 923,943 | 858,966 | 558,984 | 168,991 | 261,827 |
| **Estimated Proved Reserves** | | | | | |
| Natural Gas (MMcf) | 828,549 | 844,058 | 825,623 | 564,264 | 378,315 |
| Liquids (MBbls) | 119,549 | 89,241 | 97,086 | 35,069 | 24,636 |
| Total (Bcfe) | 1,546 | 1,380 | 1,408 | 775 | 526 |
| **Standardized Measure** (in thousands) | | | | | |
| Discounted Future Net Cash Flows Relating to Proved Reserves | $1,346,653 | 3,694,431 | 1,419,022 | 522,831 | 439,570 |
| **Production** | | | | | |
| Natural Gas (MMcf) | 108,394 | 113,842 | 61,702 | 62,310 | 49,035 |
| Liquids (MBbls) | 10,600 | 11,427 | 4,397 | 4,269 | 3,207 |
| Total (Bcfe) | 172 | 182 | 88 | 88 | 68 |
| **Drilling Activity (Net)** | | | | | |
| Exploratory Wells - Productive | 48.6 | 34.1 | 6.7 | 5.4 | 9.3 |
| Exploratory Wells - Dry | 7.3 | 9.7 | 4.1 | 9.9 | 5.3 |
| Development Wells - Productive | 6.1 | 8.9 | 5.1 | 12.6 | 25.5 |
| Development Wells - Dry | 1.3 | — | — | 2.0 | 11.3 |
| **Total Acreage** | | | | | |
| Gross Acres | 22,575,018 | 29,486,206 | 62,050,698 | 21,824,009 | 2,207,392 |
| Net Acres | 15,701,110 | 19,662,094 | 34,513,178 | 18,256,268 | 825,362 |

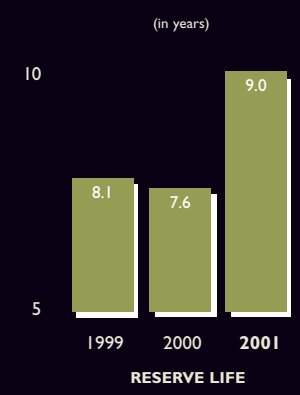
# FINANCIAL MEASUREMENTS



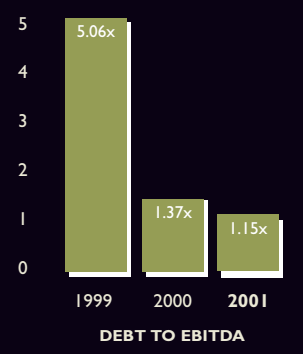



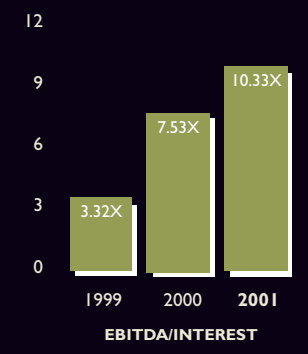




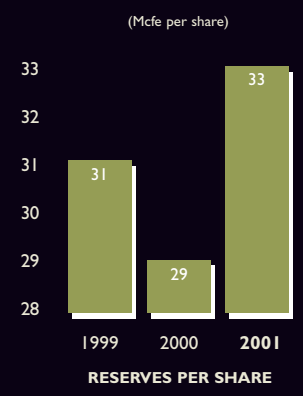





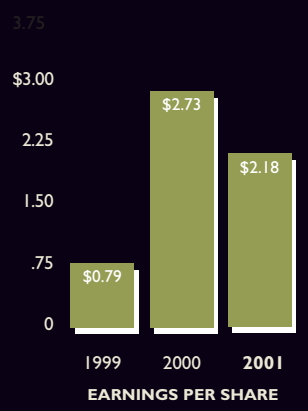










**CAPITAL EXPENDITURES** - Measures total investment in growth assets, including capitalized general and administrative expenses.

**RESERVE ADDITIONS** - The amount of oil and gas added to proved reserves through acquisitions, exploration, and development activities.

**THREE YEAR AVERAGE FINDING COSTS** - Measures a company's historical cost of adding proved reserves through drilling and acquisitions averaged over a three year period.

**PROVED RESERVES** - Estimated quantities of oil and gas in the ground that have been demonstrated to be recoverable in future years from known reservoirs under existing economic and operating conditions.

**RESERVE LIFE** - At last year's production rates, indicates how long it would take to drain all of a company's proved reserves if no new reserves were added.

**LONG-TERM DEBT PER BOE** - Relates a company's long-term debt to its estimated proved reserves, stated as equivalent barrels of oil.

**DEBT TO EBITDA** - Relates a company's long-term debt to its ability to repay that debt through internally generated cash.

**EBITDA/INTEREST** - Relates a company's internally generated cash to interest payments.

**VALUE ADDED INDEX** - Measures the amount of discounted present value added per dollar spent on capital projects. An index of greater than 1.0 reflects a program that created value at an internal rate of return greater than ten percent.

**RESERVES PER SHARE** - Relates the amount of a company's proved reserves to each share of common stock outstanding.

**DEBT PER SHARE** - Relates the dollar amount of a company's debt attributable to each share of common stock outstanding.

**EARNINGS PER SHARE** - The amount of earnings attributable to one share of weighted average outstanding common stock.

*Western Region Business Unit*
*Lawton, Oklahoma*

## OPERATIONAL HIGHLIGHTS

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Production** | | | |
| Gas (Bcf) | – | – | – |
| Liquids (MMBbls) | 3.4 | 2.9 | – |
| **Estimated Proved Reserves** | | | |
| Gas (Bcf) | 5.6 | 5.6 | – |
| Net (MMBbls) | 67.8 | 28.1 | 28.1 |
| **Developed Acreage** | | | |
| Gross | 282,099 | 295,164 | 44,125 |
| Net | 13,686 | 22,119 | 24,976 |
| **Undeveloped Acreage** | | | |
| Gross | 167,912 | 158,115 | 175,166 |
| Net | 161,529 | 151,090 | 167,521 |
| **Gross Wells** | | | |
| Gas | 1 | – | – |
| Oil | 1,031 | 136 | – |
| (in thousands) | | | |
| **Capital Expenditures** | $106,260 | $58,085 | – |

The commitment of Forest Oil to broaden our asset base and exploration activity is exemplified by our position north of the 60th parallel. The 2000 merger allowed us entry into Alaska to accompany our longstanding position in northern Canada and the MacKenzie Delta. Despite Alaska's wilderness area and harsh operating conditions, this vast frontier is among the last industry opportunities in North America with large reserve potential. Alaska's land mass remains mostly unexplored, despite estimated potential gas reserves of 40 Tcfe. According to public data sources, Alaska has the undiscovered reserve potential of 12 Bbbls and 300 Tcf excluding the Arctic National Wildlife Refuge. This provides Forest the opportunity to identify and explore for significant reserve targets without the high costs experienced in some international and deep water areas.

### 2001 HIGHLIGHTS

2001 was an extremely successful year for our Alaska drilling program, as we completed 100 percent of the wells drilled while contributing approximately half the reserve additions for the Company.

Our activity and reserve additions were exclusively from the Cook Inlet on the southern coast of Alaska. Even though several sizeable oil and gas fields were discovered in the Inlet in the 1960's, many major oil companies moved their activity to the North Slope of Alaska in search of bigger targets. Thirty years later, in response to more favorable economic conditions and advancements in technology, there is a renewed interest in the Cook Inlet as a major exploration play.

Forest is an active explorer in the Cook Inlet with additional exploration licenses north of Anchorage in the Susitna Basin and in the Copper River Basin. Forest Oil will become the biggest oil producer in the Cook Inlet when our Redoubt Shoal discovery comes on line.

Our 2001 activity was focused on two major properties in the Cook Inlet: the McArthur River Field and our 100 percent owned Redoubt Shoal discovery. Forest has a 47 to 51 percent working interest in the non-operated Trading Bay Unit and McArthur River Field. The McArthur River Field was discovered in the 1960's and should ultimately recover over 600 MMBbls and 1.2 Tcf, making it a very large field by North American standards. Our applied technology includes waterflood conformance, 2-D seismic and horizontal drilling. In 2001, we drilled three wells in the McArthur River Field, resulting in larger oil reserves and improved production rates. The K-13 RD horizontal completion in the Hemlock sandstone initially produced at 7,000 Bbls/d and continues to produce at 6,000 Bbls/d. This is the highest

producing well in the history of the Cook Inlet. Several more horizontal wells are planned in 2002. We expect excellent recovery rates and view the field as a reserve growth area for years to come. McArthur River will serve as the analogous model for our Redoubt Shoal development due to its close proximity and shared Hemlock interval.

Our 100 percent owned Redoubt discovery was the major highlight for the Company in 2001 and for the entire Cook Inlet. A wide array of technology has been used by Forest in this field including re-locatable platforms, directional drilling, stabilized oil base mud systems, improved artificial lift techniques and secondary recovery (waterflooding). Our Osprey platform, recipient of several engineering design awards, was the first platform set in the Cook Inlet since the 1960's. Forest drilled and completed three discovery wells at Redoubt in 2001 and ended the year with booked net reserves of 50 MMBbls. Further delineation drilling will take place in 2002 with the Redoubt #4 reaching total depth in the first quarter. The Redoubt #4 well will be the deepest directional well drilled in the Cook Inlet to date and will also define the eastern limit of the Redoubt oil field. Drilling will continue for several years as producers and water injection wells are drilled to fill the Osprey Platform's 28 slots.

Convinced Redoubt Shoal holds world-class reserve potential for near as well as long term, Forest has declared the area its top priority in 2002. The development of Redoubt Shoal will represent the largest single project capital expenditure in the history of Forest Oil. While drilling continues, we will install pipeline and production facilities that will allow initial oil sales in late 2002. Projected rates include 2,500 Bbls/d per completion with anticipated total rate of 15,000 Bbls/d with available platform capacity of 20,000 Bbls/d. As we work to determine the size and extent of the Redoubt oil accumulation, we will also evaluate the extent of the shallow gas pay tested in the Redoubt #3 and logged in the Redoubt #4. The #3 well tested 8 MMcf/d from one gas sand. Finding gas in the #4 well will allow gas sales over and above our fuel gas requirements. This field's potential continues to grow with delineation drilling and employment of appropriate technology.

## FUTURE STRATEGY

Our Alaska Business Unit will dominate our capital activity in 2002. We anticipate that this region will provide major reserve additions in 2002 as we delineate Redoubt oil and gas fields while also drilling additional exploration wells elsewhere in the Cook Inlet. The onset of Redoubt production in 2003 is expected to grow the Alaska region to approximately 30 percent of total Company production and will provide Forest the balanced portfolio we have long desired.

*Alaska Business Unit*
*Osprey Platform*
*Cook Inlet, Alaska*

*The Matanuska Glacier*
*Alaska*

The Cook Inlet is renowned for its giant oil and gas fields. Our exploration efforts continue with the spudding of the Cosmopolitan prospect in the south end of the Cook Inlet where Forest has a 25 percent working interest. Our work in 2002 on licenses in the Susitna and Copper River Basins will involve seismic acquisition. Additionally, we have eight high potential exploration prospects generated by Forest that are expected to commence drilling in 2003.

Although this region is exploration focused, a growing level of diversity exists in the Alaska Business Unit's portfolio. The wildcat exploration program will be offset by exploitation of the mature waterfloods. Since these non-operated waterfloods were a major component of higher lifting costs in 2001, the Alaska Business Unit will join in the Company's efforts to reduce operating costs in 2002.

The waters of the Cook Inlet and the onshore basins in Alaska have been exciting areas for Forest. Our plans for 2002 will deepen our commitment to the land north of the 60th parallel, and further position Alaska as a highly productive and profitable operating unit.

Since the formulation of Forest's North American natural gas strategy in 1995, the Canadian Foothills and Northwest Territories have played an integral role in the Company's long-term exploration and development plans. During the time Forest developed its strategy, increased energy demands in Canada had depleted the country's natural gas reserve life index to roughly ten years, indicating that increased supply for future consumption would need to come from new discoveries. Concurrently, additional pipeline capacity was being created from an expansion of the Northern Border and Alliance pipelines that would allow for the transmission of more Canadian gas to markets in Canada and the United States. By exercising the foresight in the mid-90's to recognize Canada as an underexplored region with great potential, Forest acquired strategic positions that have solidly established the Company from southern Alberta to north of the 60th parallel.

## 2001 HIGHLIGHTS

The most prospective Canadian play offering short term potential is in the Foothills, where Forest has a significant interest. The Foothills have become one of the most attractive gas plays in the Western Canada Sedimentary Basin. After spending four years as a shallow player in the Basin, we are moving into the relatively unexplored deep potential. We are currently drilling the thrust and fault plays below 5,000 feet in this area. This level of the Alberta Basin has not been drilled significantly. With the addition of 6,325 acres to our Foothills inventory in fourth quarter 2001, our holdings in this area are approximately 40,000 net acres.

Forest's Foothills play contains 61 active drill sites in four areas: Waterton, Cutpick, Narraway and Ojay Fields. In 2001, we successfully drilled a total of nine wells in these areas with a 100 percent success rate. Our focus in 2002 is to bring our existing wells, some of which are very strong, on-stream and reduce our finding and development costs. Whereas the goal since 1998 has been to explore for reserves, particularly in the deeper fields of the basin, the focus moving into 2002 is to reap the benefits of exploratory capital investment with production dollars.

In 2001, following the acquisition of a significant block of acreage in the Cutpick area, Forest drilled six wells with a 100 percent success rate. A gas processing facility and pipeline connection were completed early in 2001, with gas currently on production in this field. With all components in place, we expect significant production yields from Cutpick in 2002.

## OPERATIONAL HIGHLIGHTS

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Production** | | | |
| Gas (Bcf) | 11.0 | 11.5 | 12.4 |
| Liquids (MMBbls) | 1.4 | 1.5 | 1.7 |
| **Estimated Proved Reserves** | | | |
| Gas (Bcf) | 159.8 | 120.8 | 130.9 |
| Liquids (MMBbls) | 8.6 | 9.1 | 10.8 |
| **Developed Acreage** | | | |
| Gross | 262,387 | 262,684 | 285,819 |
| Net | 126,240 | 134,015 | 138,461 |
| **Undeveloped Acreage** | | | |
| Gross | 1,637,479 | 1,508,266 | 1,769,804 |
| Net | 735,448 | 610,702 | 757,300 |
| **Gross Wells** | | | |
| Gas | 209 | 201 | 245 |
| Oil | 270 | 280 | 286 |
| (in thousands) | | | |
| **Capital Expenditures** | $ 63,193 | $ 50,802 | $ 42,665 |

*Canadian Business Unit*
*Grand Prairie,*
*Northwest Territories*

The most significant event in the Foothills occurred in February 2002 when the Narraway Field came on stream ahead of schedule. Forest is the operator in the Narraway Field where our working interest ranges from 50 to 55 percent. Since the commencement of production in April 2000, we have drilled six wells with a 100 percent success rate. Four wells are currently producing a gross volume of 20 MMcf/d with one well remaining to be tied into pipeline and another scheduled for completion.

## FUTURE STRATEGY

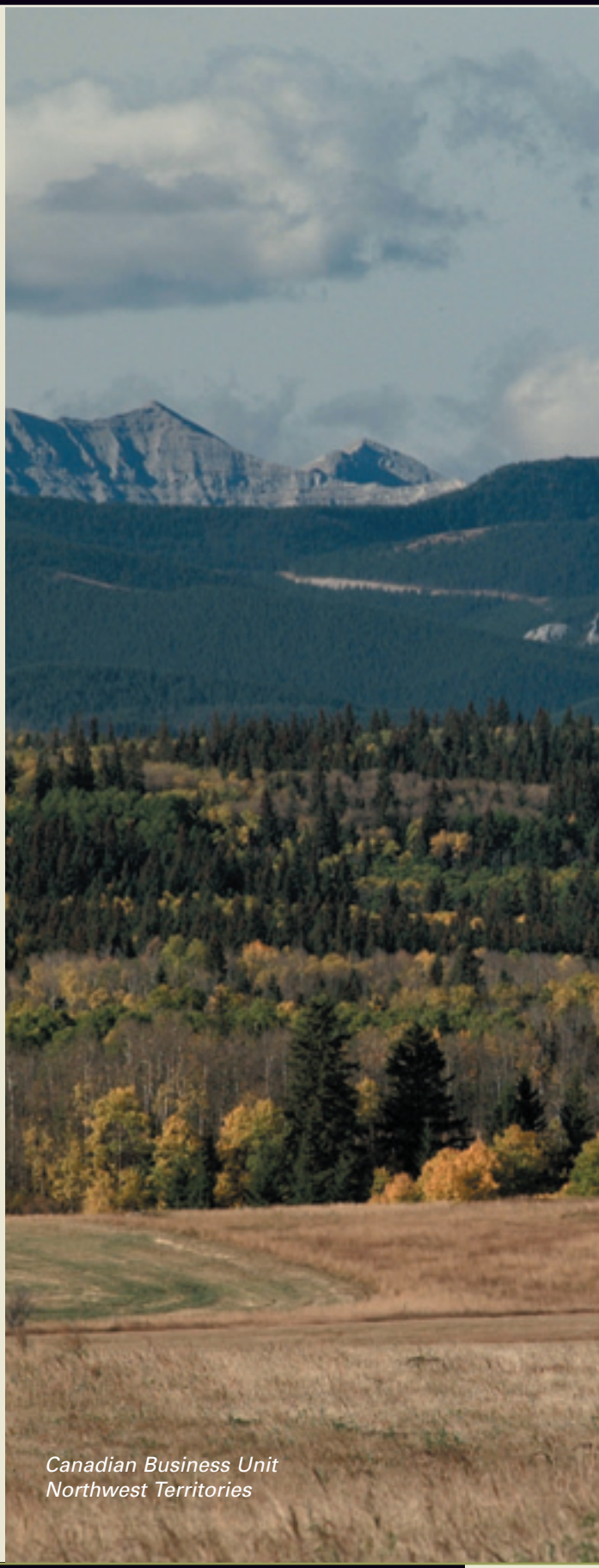
The vast expanse north of the 60th parallel figures prominently in Forest's long-term exploratory and development plans. The lure of immense quantities of reserves makes the remote area highly attractive, despite its environmental challenges and lack of infrastructure. The Canadian National Energy Board estimates gas reserves in the region at 225 Tcf and oil at 23 Bbbls. Like all frontiers, the prize will not be earned without an investment of time, capital and hard work. We remain confident that our commitment in the under-explored lands north of the 60th parallel will reap benefits in the years ahead.

Forest's interests in the Northwest Territories are concentrated in the Liard Plateau, the Norman Wells Field and the Central Mackenzie Valley. A stretch of 2,000 miles runs between Ft. Liard on the southern edge of the region to the Mackenzie Delta and Beaufort Sea in the north. To date, we have drilled 10 wells in this complex geological area, using modern 2-D and 3-D seismic surveys and down-hole drilling motors and deviated wellbore techniques in mountainous areas.

In 2001, we strengthened our land position in the Northwest Territories through the acquisition of 170,000 additional acres, bringing total holdings to 457,000 net acres. In the Ft. Liard area, we entered into a joint venture which requires our partner to shoot 3-D seismic at their expense during the 2001-2002 winter season. Our partner has committed to drilling one deep test and has options on additional wells in order to earn acreage.

Further north, Forest has significant acreage holdings in the Norman wells area, Mackenzie Valley and Mackenzie Delta region where Forest has interests in 20 significant discovery licenses. Oil and gas exploration is expected to occur when either an Alaskan or Canadian pipeline is constructed to meet the growing energy demand in the United States.

Our return on our Canadian interests continues to look promising with 2002 production expected to increase by over 20 percent. Much of the Canadian region is unexplored compared to the United States. As demand and pipeline capacity increases, Forest is in an excellent position to reap the benefits of establishing an early foothold while making prudent investment decisions along the way.



*Canadian Business Unit*
*Northwest Territories*

## OPERATIONAL HIGHLIGHTS

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Production** | | | |
| Gas (Bcf) | 14.7 | 15.6 | 10.1 |
| Liquids (MMBbls) | 1.4 | 2.2 | 0.7 |
| **Estimated Proved Reserves** | | | |
| Gas (Bcf) | 195.2 | 184.7 | 190.9 |
| Net (MMBbls) | 17.1 | 20.9 | 24.0 |
| **Developed Acreage** | | | |
| Gross | 261,949 | 354,600 | 377,011 |
| Net | 51,570 | 106,276 | 120,753 |
| **Undeveloped Acreage** | | | |
| Gross | 155,012 | 763,865 | 775,139 |
| Net | 91,424 | 179,814 | 185,316 |
| **Gross Wells** | | | |
| Gas | 208 | 455 | 110 |
| Oil | 418 | 1,310 | 9 |
| (in thousands) | | | |
| **Capital Expenditures** | $ 45,333 | $ 25,504 | $ 6,837 |

The Western Region Business Unit, established in 1996, extends from west Texas and Oklahoma north through the Rocky Mountain region. In this vast region, it is important to narrow our focus to specific producing areas: Permian Basin of west Texas, Anadarko Basin of Oklahoma, Uinta Basin of Utah and the Green River and Washakie Basins of Wyoming. These basins are characterized by mature producing fields where steady production and reserve additions can be unlocked using new technology. Like the Gulf Coast Onshore Business Unit, the Western Region Business Unit contains diversity within its portfolio of producing fields and inventory of exploitation projects. Our goal in this region is to create value from both the drill bit and the enhancement of acquired producing assets.

In 2001, the Western Region Business Unit transitioned from primarily a deep gas explorer to a regional producer diverse in both activity and technology. In addition to gas drilling in traditional areas like the Rocky Mountains, we initiated deep gas drilling in the Anadarko Basin, horizontal/directional drilling in the Permian Basin, secondary recovery on previously acquired oil fields, 3-D seismic driven exploration and hydraulic fracture stimulation throughout the region. As a result, the Western Region Business Unit has achieved product diversity between oil and gas commodities.

### 2001 HIGHLIGHTS

In 2001, the Western Region Business Unit completed 26 of 27 wells drilled for a success rate of 96 percent. The most impressive statistic about the 2001 Western program, however, is that reserves remained constant despite the sale of non-strategic properties. We added 38 Bcfe at a finding and development cost of $1.18 per Mcfe, while spending less capital than the cash flow generated from the region in the same year. The production reserve replacement achieved solely from finding and development activity was 165 percent. Production volumes in 2002 are expected to increase over 2001 levels due to successful activity in fourth quarter of 2001.

In the Rocky Mountain area, our activity was focused in the Wild Rose and East Echo Springs fields in Wyoming. We drilled and completed five wells in Wild Rose in the fourth quarter. These fracture-stimulated completions each averaged 1.0 to 2.0 Mcfe/d and are the first wells in an expected 15 to 30 well program that will continue in 2002. Forest has a 100 percent interest in Wild Rose. We drilled three wells in Echo Springs (25

percent working interest) that came on line in January 2002 at average gross rates of 2.5 MMcfe/d per well.

Our entry into the Anadarko Basin proved fruitful with the completion of two 20,000 foot Springer wells that came on line in February 2002 at 4 to 8 MMcfe/d per well. A third shallow Springer well was drilled that came on line during March 2002 at 3 MMcfe/d. Our working interest in these wells ranges from 43 to 82 percent.

Our most unique application of new technology in the region was the drilling of a high-angle deviated wellbore into the fractured Wolfcamp interval on the Ophal Dunlap #18-1 in west Texas. The well initially produced 7.8 MMcfe/d and is currently producing 3.7 MMcfe/d. A second similar high-angle well is currently being drilled.

## FUTURE STRATEGY

The Western Region Business Unit will have an active program in 2002 with capital expenditures funded from the Unit's cash flow. Based on the region's 2001 results, 30 wells are planned in 2002. The region has successfully added low cost reserves with stable production rates while controlling lifting costs. This Business Unit is committed to Forest's "back-to-basics" strategy.

Having achieved diversity, this region is ready to grow in size. Our technological diversity will serve the Western Region Business Unit well in the exploitation of its mature assets. The Western Region Business Unit is poised to be an efficient niche player while, at the same time, enhancing assets obtained from acquisitions. As will be the case throughout the Company, growth in this region will reflect the efficiency with which we operate and, more specifically, the way we expend capital, conduct our drilling activity and pursue acquisitions.

*Western Region Business Unit*
*Ophal Dunlap #18-1 Well Site*
*Ft. Stockton, Texas*

## OPERATIONAL HIGHLIGHTS

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Production** | | | |
| Gas (Bcf) | 8.5 | 8.2 | 10.7 |
| Liquids (MMBbls) | 1.1 | 1.0 | 1.0 |
| **Estimated Proved Reserves** | | | |
| Gas (Bcf) | 147.4 | 137.9 | 166.5 |
| Liquids (MMBbls) | 12.5 | 13.4 | 15.0 |
| **Developed Acreage** | | | |
| Gross | 67,918 | 48,455 | 50,907 |
| Net | 30,344 | 23,219 | 16,617 |
| **Undeveloped Acreage** | | | |
| Gross | 6,879 | 7,899 | 7,444 |
| Net | 3,387 | 2,616 | 3,157 |
| **Gross Wells** | | | |
| Gas | 222 | 224 | 183 |
| Oil | 58 | 199 | 7 |
| (in thousands) | | | |
| **Capital Expenditures** | $ 51,208 | $ 10,083 | $ 35,201 |

The Gulf Coast Onshore Business Unit, formed in 1998, is comprised of 35 fields along the coasts of Louisiana and Texas. The Onshore Business Unit is characterized by acreage positions in excellent areas as well as high quality seismic over most of the major fields. As with the Gulf of Mexico Offshore Business Unit, Forest has a well-established infrastructure within the inland water areas, which will prove invaluable for future activity. This region is one of the oldest in the Forest portfolio, but also the most diverse in terms of well activity. Core areas include the Miocene trend in south Louisiana, fractured carbonates in central Texas and tight formations of the Wilcox and Vicksburg in south Texas. Our Gulf Coast Onshore Business Unit employs both new and varied technology including sand control, hydraulic fracture stimulation, and deep, geo-pressure drilling techniques.

Production rates for the Gulf Coast Onshore Business Unit averaged 41 MMcfe/d in 2001. The Gulf Coast Onshore Business Unit contributed approximately nine percent of Forest's total production in 2001.

### 2001 HIGHLIGHTS

The Gulf Coast Onshore Business Unit completed 11 of 12 wells drilled in 2001 for a success rate of 92 percent. Of the 12 wells drilled in 2001, all wells were exploratory. Although there was limited activity during first half 2001, the second half, and particularly the fourth quarter, was very active.

The major highlight in 2001 for the Gulf Coast Onshore Business Unit came late in the year from the Bonus Field located southwest of Houston, Texas. A total of four wells were drilled and completed as commingled producers from Wilcox sands. Utilizing fracture stimulation technology, we increased overall gross field production from 0.5 MMcfe/d to 26 MMcfe/d. Our working interest in the Bonus Field ranges from 74 to 92 percent. This is a great illustration of exploiting a marginal, lesser-known field by successfully employing new technology. Peak rate reached 37 MMcfe/d in December 2001.

The E. Broussard Heirs #1 exploratory well in the S.E. Tigre Lagoon Field, South Louisiana, in which Forest has a 78 percent working interest, found gas pay in the deep Miocene section and had first production in the fourth quarter at a rate of 8.6 MMcfe/d. This field was enhanced by exploitation efforts using 3-D seismic on a property acquired several years ago.

The Gulf Coast Onshore Business Unit shot 3-D seismic over the McAllen Ranch Field in south Texas where

Forest has a 50 percent working interest. This field was discovered by Forest and has been in our producing portfolio for many years. Two exploratory wells were successfully drilled and completed in the Vicksburg formation. As a result, the total field production increased from 5 MMcfe/d to a peak of 15 MMcfe/d. Further exploitation of fault blocks not yet drilled is planned for 2002.

## FUTURE STRATEGY

The Gulf Coast Onshore Business Unit's objectives are simple: 1) exploit the existing asset base, particularly the unique mixture of acquired properties; 2) balance exploitation with leveraged exploration; 3) reduce operating costs to historically low Forest averages; and, most importantly, 4) grow the region to assume a larger share of Forest's corporate portfolio. We expect growth to be achieved through exploitation activity and acquisitions.

Despite lower capital expenditures in 2002, the Gulf Coast Onshore Business Unit's production should increase from 2001. Our technology application and exploitation focus will be apparent in 2002 with the Deer Island Deep exploration program, McAllen Ranch comprehensive field exploitation, and the Katy Field deep and shallow drilling programs. Our first well drilled in the Katy Field near Houston, Texas, in 2002 will be the first well drilled in the field in over a decade.

The Gulf Coast Onshore Business unit, along with the Western Region Business Unit, comprises our lower 48 assets. Both regions have led the way in our "back-to-basics" philosophy regarding mature assets. Our assumption is the older the field, the more the benefit from implementing appropriate technology.

*Gulf Coast Onshore Business Unit*
*Bayou Postillion Field*
*South Louisiana*

## OPERATIONAL HIGHLIGHTS

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Production** | | | |
| Gas (Bcf) | 74.1 | 78.5 | 28.5 |
| Liquids (MMBbls) | 3.3 | 3.8 | 0.9 |
| **Estimated Proved Reserves** | | | |
| Gas (Bcf) | 320.5 | 395.1 | 337.3 |
| Net (MMBbls) | 13.6 | 17.7 | 19.2 |
| **Developed Acreage** | | | |
| Gross | 644,866 | 717,079 | 733,734 |
| Net | 336,881 | 333,591 | 337,584 |
| **Undeveloped Acreage** | | | |
| Gross | 251,237 | 187,200 | 223,497 |
| Net | 171,714 | 142,570 | 183,609 |
| **Gross Wells** | | | |
| Gas | 209 | 138 | 58 |
| Oil | 157 | 380 | 40 |
| (in thousands) | | | |
| **Capital Expenditures** | $265,328 | $218,540 | $ 28,744 |

Forest's offshore production is located primarily on the Gulf of Mexico shelf with additional activity in the deepwater. Our Gulf of Mexico Offshore Business Unit benefits from a large acreage position and seismic database in addition to an extensive, well-established platform infrastructure. A Gulf operator since 1954, Forest is ranked among the top independent gas producers offshore with 99 operated platforms and ownership in 204 blocks. The Offshore Business Unit is the largest unit within the Company, providing 55 percent of 2001 production. The significant number of mature fields provides exploitation opportunities with steady cash flow while our acreage allows for exploration opportunities on the deep shelf, sub-salt and deepwater plays. Our large inventory of both exploitation and exploration prospects ensures years of activity without additional land or property acquisitions.

Forest's presence in the Gulf tripled following the 2000 merger. Most of our 2001 offshore activity focused on exploiting these newly acquired fields and acreage. Not surprisingly, as gas prices soared in 2001, rig rates and services also experienced dramatic increases and contributed to higher costs for capital activity and operating expenses. In addition, repair and replacement costs resulted in an increase in our previously low operating costs in the region.

### 2001 HIGHLIGHTS

The Offshore Business Unit completed 38 of 46 wells for an 83 percent success rate in 2001. Of the 46 wells drilled, 41 wells were exploratory.

The most successful exploitation occurred in the South Marsh Island and Vermilion areas where discoveries were made at SMI 149, SMI 105, SMI 76, SMI 97 and VR 261. All were turned to sales in 2001 with the exception of SMI 149 and SMI 105, which will come on line in mid-2002. These properties, as well as a portion of future development capital obligations, were included in a transaction that we completed in the fourth quarter. The most significant discovery was SMI 149 where three wells were drilled, tested and a platform set in early 2002. Once tied back and completed, these wells are expected to produce at a total gross rate of 45 MMcfe/d.

The year 2001 marked Forest's entry into the deepwater Gulf of Mexico with first production from East Breaks164 and a discovery at the EB 420 complex. At 100 percent working interest for Forest, the EB 164 #2 was sub-sea completed and tied into a host platform in late 2001 at a gross rate of 15 MMcfe/d. The EB 420, or Lost Ark Prospect, with 50 percent working interest, had two wells drilled and tested. The first of these sub-sea completions will be tied in by the end of 2002 and is expected to produce at a gross rate

of 30 MMcfe/d. Both projects are consistent with Forest's deepwater exploration strategy to utilize sub-sea completion technology to avoid excessive infrastructure expenses.

During 2001, we commenced our first sub-salt well, the Thunder Prospect, at Eugene Island 342. We have an 18.75 percent working interest in this prospect, which is expected to reach total depth in the second quarter of 2002.

In November 2001, a 50 percent working interest in the production and facilities in the South Marsh Island and Vermilion areas were sold for an adjusted purchase price of $118 million. This transaction is the primary reason for our lower offshore production in 2002.

We also signed a joint exploration agreement with our partner that should reduce Forest's future development costs on the aforementioned discoveries and provide Forest a promoted interest on our identified deep shelf prospects. Under the agreement our joint venture partner will provide seismic processing and interpretation and will offer Forest exploration prospects from the Gulf-wide portfolio on an unpromoted basis.

## FUTURE STRATEGY

In addition to ten wells we expect to drill with our joint venture partner in the South Marsh and Vermilion areas in 2002 and 2003, our near term strategy employs three areas of focus: 1) cost reduction, 2) portfolio diversification, and 3) existing property production enhancements.

We intend to reduce both drilling costs and operating costs to year 2000 levels. To accomplish this goal, we will increase our drilling and production efficiency. Our commitment to a more fundamental approach in all of Forest's Business Units will be most evident offshore. To lower operating costs, we plan to redesign our operating routes, consolidate with other operators to share services and divest marginal high cost fields.

The 2002 offshore capital program calls for seven to eight exploration wells and five to eight development wells along with an active enhancement program on the property base. In alignment with Forest's corporate portfolio, we intend to diversify our offshore portfolio to remove dependency on any one play. Diversification will involve conventional shelf exploration and development, deep shelf gas exploration, sub-salt activity and deepwater exploration, with limited capital exposure to the most expensive plays. This diversification, in addition to our extensive infrastructure on the shelf, should make Forest's portfolio unique in the industry.

*Gulf of Mexico Offshore Business Unit*
*Eugene Island 292*

## OPERATIONAL HIGHLIGHTS

| | | | Gross Acres |
|---|---|---|---|
| **Europe** | | | 5,920,656 |
| **Asia** | | | 241,122 |
| **Africa** | | | 12,675,502 |
| (in thousands) | | | |
| **Capital Expenditures** | $33,339 | $25,024 | $8,906 |

Forest's International operations are situated in two distinct geographic areas. We are a mountain front player in central and eastern Europe where strong natural gas markets create excellent opportunity. Our second primary area of international focus is off the west coast of South Africa. Initial exploration over a three-year period indicates long term potential once the infrastructure is created and markets are established. Our vision is to play an integral role in the creation of an emerging market in this region.

History has shown that once gas is brought into the system, its advantages over other fuel sources become readily apparent, and demand is established. We believe South Africa is on the cusp of such a transition. The country is the economic hub of the southern cone of the continent, rich in manufacturing, technology and mineral deposits. A democratic government has been in place for some time and the political climate is generally favorable. Industries that could potentially use gas as their energy source are in existence. Our presence provides Forest the opportunity to play a significant role in creating an oil and gas infrastructure. To that end, our immediate focus is on executing a drilling program, certifying reserves and bringing commercialization to potential markets.

### 2001 HIGHLIGHTS

In 2000 and 2001, Forest drilled three wells in the Ibhubesi Gas Field off the west coast of South Africa in an area known as the Orange River Basin. We have licenses for ten million acres in this Basin with both deep and shallow plays. The three wells drilled by Forest, plus a fourth well drilled previously, yielded a significant discovery and tested at a combined rate of 190 MMcfe/d. Drilling expenses as well as finding and development costs are comparatively low in the Orange River Basin.

### FUTURE STRATEGY

In 2002, Forest will seek confirmation and certification of the reserves off the west coast of South Africa. Several signed letters of intent to promote exploration are in place. We will move toward formalization of those contracts in the year ahead and look for multi-lateral financing to build the necessary infrastructure. We have made steady progress toward our goal of declaring commerciality in 2002, and estimate to be on production as early as 2004.

Even though extended lead times are required to establish a firm foundation in the South Africa market, reserves indicate that the area has the potential to be a high-yielding production center for Forest. This long-term investment is another example of our commitment to exploration and development in regions with great potential.

# EXECUTIVE AND OTHER OFFICERS

**Robert S. Boswell**
Chairman of the Board and Chief Executive Officer
Age: 52
Years of Service: 16

**H. Craig Clark**
President and Chief Operating Officer
Age: 45
6 Months with Forest Oil Corporation

**David H. Keyte**
Executive Vice President and Chief Financial Officer
Age: 45
Years of Service: 14

**Gary E. Carlson**
Senior Vice President – Alaska
Age: 55
Years of Service: 1

**Forest D. Dorn**
Senior Vice President – Corporate Services
Age: 47
Years of Service: 24

**James "Bud" W. Knell**
Senior Vice President – Gulf Coast
Age: 51
Years of Service: 14

**Neal A. Stanley**
Senior Vice President - Western
Age: 54
Years of Service: 5

**Newton "Trey" W. Wilson III**
Senior Vice President - Legal Affairs and Corporate Secretary
Age: 51
Years of Service: 1

**Cecil N. Colwell**
Vice President - Drilling
Age: 51
Years of Service: 13

**Rick L. Hatcher**
Vice President - Chief Technology Officer
Age: 38
Years of Service: 10

**John F. McIntyre**
Senior Vice President -
Forest Oil International Corporation
Age: 45
Years of Service: 4

**Joan C. Sonnen**
Vice President – Controller, Chief Accounting Officer and Assistant Secretary
Age: 48
Years of Service: 12

**Donald H. Stevens**
Vice President - Capital Markets and Treasurer
Age: 49
Years of Service: 4

**Matthew A. Wurtzbacher**
Vice President – Corporate Planning and Development
Age: 39
Years of Service: 3

# BOARD OF DIRECTORS

IN ALPHABETICAL ORDER

**Philip F. Anschutz**
Director and Chairman of the Board,
The Anschutz Corporation and Anschutz Company.
Director and Chairman of the Board,
Qwest Communications International Inc.
Director and Vice Chairman of Union Pacific Corporation.

**Robert S. Boswell**
Chairman of the Board and Chief Executive Officer,
Forest Oil Corporation.
Director of C.E. Franklin Ltd.

**William L. Britton**
Partner in the law firm of Bennet Jones LLP.
Director of Akita Drilling Ltd., ATCO Ltd., ATCO Gas, Canadian Utilities Limited, CanUtilities Holdings Ltd. and ATCO Pipelines.

**Cortlandt S. Dietler**
Chairman of the Board, TransMontaigne Inc.
Director of Key Production Company, Inc., Hallador Petroleum Corporation and Carbon Energy Corporation.

**Dod A. Fraser**
Consultant
President of Sackett Partners Incorporated.
Former Managing Director and Group Executive of the global oil and gas group of Chase Securities, Inc., a subsidiary of The Chase Manhattan Bank.
Trustee of Hurricane Island Outward Bound School and Resources for the Future.

**Cannon Y. Harvey**
Director, President and Chief Operating Officer of The Anschutz Corporation and Anschutz Company.
Director of Qwest Communications International Inc.

**Forrest E. Hoglund**
Chairman of the Board and Chief Executive Officer of Arctic Resources Company, Ltd.
Former Chairman of the Board of Enron Oil & Gas Company.

**Stephen A. Kaplan**
Principal, Oaktree Capital Management, LLC.
Director of Collagenex Pharmaceuticals, Inc. and General Maritime Corp.

**James H. Lee**
Managing General Partner, Lee, Hite & Wisda Ltd., a private oil and gas consulting firm.
Director of Frontier Oil Corporation.

**Craig D. Slater**
President of Anschutz Investment Company.
Executive Vice President of The Anschutz Corporation and Anschutz Company.
Director of Qwest Communications International Inc. and United Artists Theatre Company.

**Michael B. Yanney**
Chairman of the Board and Chief Executive Officer of the America First Companies, L.L.C. Director of Burlington Northern Santa Fe Corporation, Level 3 Communications, Inc. and RCN Corporation.
Director and Chairman of the Board of American First Mortgage Investments, Inc.

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NYSE Symbol - FST

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or visit our website at www.ForestOil.com

## ANNUAL MEETING OF SHAREHOLDERS
The annual meeting of shareholders of Forest Oil Corporation will be held at the Colorado State Bank Building, 1600 Broadway, 5th Floor, Denver, Colorado, Wednesday, May 8, 2002 at 10:00 am MDT.

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