# Forest Oil Corporation Oil and Gas Valuation Report

Reference Code: **GDGE0484V**

Publication Date: **OCT 2008**

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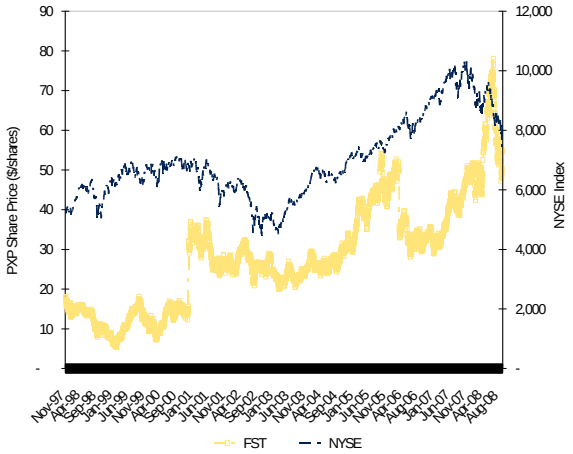
*Independent Energy Research*

## Forest Oil Corporation (FST) — September 2008

| | |
|---|---|
| **Stock Symbol** | FST |
| **Share price at September 2008 ($/share)** | 49.6 |
| **Share price at September 2007 ($/share)** | 43.1 |
| **Target Price ($/share)** | 75.0 |
| **Market Capitalization ($ Billion)** | 4.5 |
| **Enterprise Value ($ Billion)** | 6.4 |
| **52 Week high/Low ($/share)** | 83.1/40.8 |

### Share Price Performance




### Key Company Data

| | |
|---|---|
| **Listed on Stock Exchange** | NYSE |
| **Revenue (2007)** | $1,083.9m |
| **Cash in Hand (2007)** | $9.7m |
| **Basic Shares Outstanding (Million)** | 89.8 |
| **Net Debt ($m)** | $1,493.4m |
| **EV/EBITDA (x) At Current Market Price** | 8.1 |
| **EV/Sales (x) At Current Market Price** | 3.5 |
| **P/E** | 24.5 |
| **Long Term Debt/Equity** | 37% |

### Research Contact

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# Bolt-On Acquisitions Providing Impressive Value To The Company

### View

**Positive**

### Summary

Forest Oil Corporation (FST) offers compelling value at the current levels given the company's impressive assets base. The acquisitions have given the company an impressive value proposition, growth and stable cash flows. FST's impressive second-quarter results came on the back of increased production volumes, higher price realizations. With drilling activities and proved property acquisition, production increased by 31% to 505 MMcfe/d. Looking at the company's forward plans, we expect the company to maintain the same trend of solid production growth and bold-on acquisition through the remainder of the year

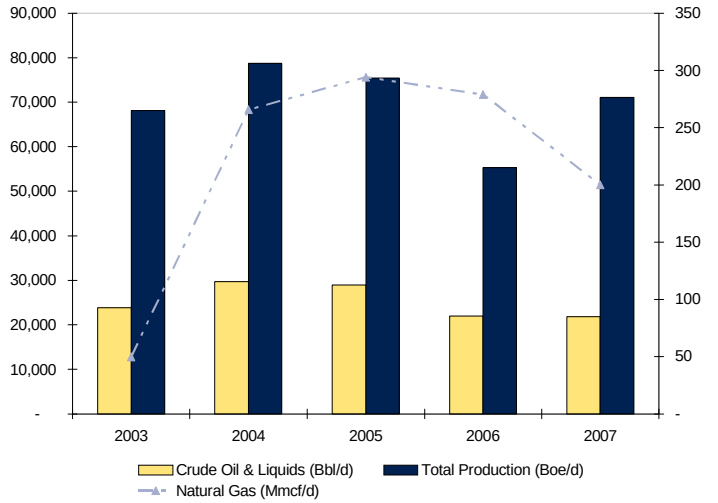
### Key Points

- FST provides significant potential to investors through its exposure to some of the established and upcoming shale; Barnett Shale, Haynesville Shale and Utica Shale. Combined together these shales provide around 9.9 Tcfe of net unrisked resource potential to the company.
- FST has a large development and exploration asset base which provides substantial upside potential to the company. At the end of September 2008, the company had 18,969 potential drilling locations containing 17.2 Tcf resource potential (versus its current 2.1 Tcfe proved base).
- FST strategically acquires selective oil or gas properties near its current core areas of operation. FST has the history of acquiring assets inexpensive and subsequently adding enormous value through development. During 2003-07, of the total 326.1 Mmboe of proved reserves additions, around 76.3% of the reserves additions were primarily through proved reserves acquired through deals. FST's five years average acquisition cost per boe is around $10.5/boe.
- On sum-of-parts valuation, we value FST at $75.0/share, which comprises Net Asset Value (NAV) of the commercial reserves at $59.7/share and $15.3/share for risked unproven resource potential. At current price of $49.6/share, the company is trading at a 33.9% discount to our net asset value (NAV).

# Key Financial and Operational Metrics

## Key Valuation Metrics

| Parameter | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Price / Annualized CFPS | X | 0.9 | 0.8 | 1.1 | 1.2 | 1.4 |
| DACFM | X | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| EV / EBITDA | X | 1.3 | 1.0 | 1.2 | 1.4 | 1.2 |
| EV / Boed | $/Boed | 34,391.6 | 33,528.5 | 48,716.8 | 57,923.3 | 54,414.9 |

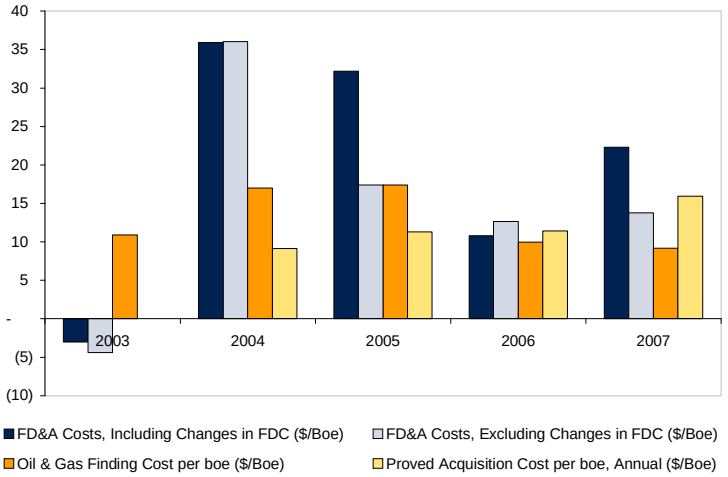



## Key Production Data

| Parameter | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Crude Oil & Liquids | Bbl/d | 23,838.4 | 29,690.4 | 28,953.4 | 21,989.0 | 21,767.1 |
| Natural Gas | Mmcf/d | 49.8 | 265.7 | 294.2 | 279.0 | 200.1 |
| Total Production | Boe/d | 68,120.1 | 78,716.0 | 75,452.5 | 55,333.3 | 71,101.4 |
| Production per Share (000's) | Boe/Sh. | 493.8 | 494.6 | 438.0 | 318.4 | 333.8 |
| Production per Debt | Boe/Sh. | 310.6 | 334.5 | 337.3 | 213.1 | 249.6 |
| Production Growth | % | 3.6% | 15.6% | -4.1% | -26.7% | 28.5% |

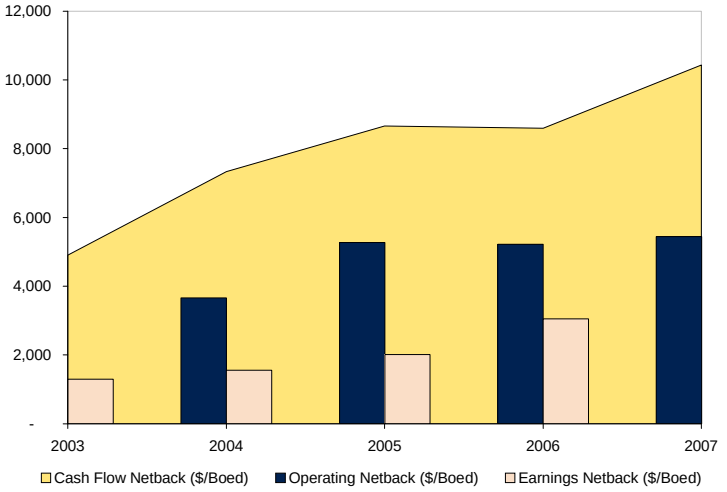
## Key Cost Per Boe

| Parameter | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| FD&A Costs, Including Changes in FDC | $/Boe | (3.0) | 35.9 | 32.2 | 10.8 | 22.3 |
| FD&A Costs, Excluding Changes in FDC | $/Boe | (4.4) | 36.0 | 17.4 | 12.6 | 13.8 |
| Reserve Replacement Cost per boe | $/Boe | (51.0) | 14.7 | 16.7 | 13.5 | 18.1 |
| Oil & Gas Finding Cost per boe | $/Boe | 10.9 | 17.0 | 17.4 | 10.0 | 9.2 |
| Proved Acquisition Cost per boe, Annual | $/Boe | - | 9.1 | 11.3 | 11.4 | 15.9 |




## Key Reserves and Reserves Metrics

| Parameter | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Reserve Life Index | Years | 8.7 | 7.7 | 8.9 | 12.0 | 13.6 |
| Production Replacement - Organic | % | -278.1% | 26.6% | 112.8% | 245.4% | 224.6% |
| Production Replacement - Net Acquisitions | % | 201.4% | 95.5% | 67.8% | -155.2% | 301.8% |
| Production Replacement - Organic & Net Acquisitions | % | -76.7% | 122.0% | 180.5% | 90.2% | 526.4% |
| Reserve Summary - Total Oil Equivalent | MMboe | 216.0 | 222.3 | 244.5 | 242.5 | 353.2 |
| Total Oil Equivalent-% Proved that is Oil | % | 37.6% | 39.9% | 39.7% | 46.5% | 26.7% |




## Netback

| Parameter | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Operating Netback | $/Boed | 2,059.7 | 3,664.7 | 5,272.0 | 5,223.1 | 5,441.0 |
| Cash Flow Netback | $/Boed | 4,905.1 | 7,335.6 | 8,662.3 | 8,595.0 | 10,435.5 |
| Earnings Netback | $/Boed | 1,297.0 | 1,556.9 | 2,008.8 | 3,045.2 | 2,381.2 |

## Table 1: Exploration and Production Segment Valuation Table

| | Company Name | Ticker | Stock Price ($/Share) | 52-Week High | 52-Week Low | Market Cap | Enterprise Value | 2007 Total Oil & Gas Production | 2007 Total Oil & Gas Reserves | EV/ Reserves | 2007 EV/ Production | Reserves Life | Net-back per boe, 5-Year | Recycle Ratio (Net-back / RRC), Annual | Oil & Gas Finding & Development Cost/boe, 5-Year | Reserve Replacement Cost per boe, 5-Year | Lifting Cost per boe, 5-Year | Oil & Gas Finding Cost per boe, 5-Year | 2007 Organic Capex |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | check | ($ Million) | (MMboe) | (MMboe) | ($/boe) | ($/boe) | (Years) | ($/boe) | % | ($/boe) | ($/boe) | ($/boe) | ($/boe) | ($ Million) |
| Large Capitalization (>$10 Billion) | Exxonmobil Corporation | XOM | 77.9 | 117.2 | 71.5 | 404,508.6 | 402,371.6 | 1,248.2 | 21,481.9 | 18.7 | 117,665.1 | 17.2 | 30.4 | 3.8 | 11.7 | 10.8 | 8.5 | 3.2 | 12,038.0 |
| | Chevron Corporation | CVX | 79.4 | 104.6 | 76.4 | 162,729.0 | 178,247.5 | 946.3 | 10,777.0 | 16.5 | 68,749.9 | 11.4 | 31.3 | 2.3 | 22.9 | 15.4 | 6.8 | 11.3 | 16,316.0 |
| | BP plc | BP | 47.8 | 79.8 | 47.0 | 148,980.0 | 170,196.0 | 1,388.7 | 17,556.3 | 9.7 | 44,734.7 | 12.6 | 22.4 | 2.8 | 6.8 | 5.4 | 5.4 | 2.4 | 12,562.0 |
| | ConocoPhillips | COP | 66.1 | 96.0 | 65.9 | 100,532.8 | 115,884.8 | 857.7 | 2,411.5 | 48.1 | 49,317.5 | 2.8 | 28.9 | 1.8 | 13.8 | 10.3 | 11.5 | 3.9 | 14,519.0 |
| | BG Group plc | BRGYY | 78.4 | 138.0 | 78.0 | 52,442.8 | 67,938.0 | 220.1 | 2,039.1 | 33.3 | 112,647.1 | 9.3 | 14.0 | 2.0 | 5.7 | 5.6 | 1.9 | 10.0 | 1,711.0 |
| | Occidental Petroleum Corporation | OXY | 61.5 | 100.4 | 60.6 | 50,274.9 | 63,184.8 | 207.5 | 2,864.5 | 22.1 | 111,144.3 | 13.8 | 38.2 | 2.4 | 11.6 | 11.9 | 9.5 | 7.2 | 3,440.0 |
| | EnCana Corporation | ECA | 54.7 | 99.4 | 54.5 | 41,065.9 | 51,988.9 | 266.0 | 3,143.9 | 16.5 | 71,338.1 | 11.8 | 27.8 | 1.1 | 10.4 | 10.7 | 6.4 | 2.8 | 6,791.0 |
| | Devon Energy Corporation | DVN | 82.5 | 127.4 | 74.6 | 36,452.9 | 43,632.2 | 224.8 | 2,497.0 | 17.5 | 70,833.5 | 11.1 | 27.9 | 1.2 | 14.3 | 12.5 | 7.9 | 4.7 | 6,091.0 |
| | Canadian Natural Resources | CNQ | 59.2 | 109.3 | 57.1 | 31,994.3 | 43,567.7 | 192.3 | 1,969.0 | 22.1 | 82,680.4 | 10.2 | 30.1 | 2.3 | 13.6 | 15.3 | 12.5 | 5.1 | 2,974.0 |
| | Apache Corporation | APA | 90.5 | 149.2 | 84.5 | 30,261.0 | 39,786.9 | 204.9 | 2,445.8 | 16.3 | 70,891.4 | 11.9 | 31.3 | 1.2 | 12.0 | 11.9 | 8.9 | 2.6 | 4,755.7 |
| | Marathon Oil Corporation | MRO | 35.6 | 63.2 | 35.2 | 25,103.5 | 28,807.6 | 125.2 | 1,225.0 | 23.5 | 84,006.2 | 9.8 | 29.7 | 1.7 | 14.5 | 14.4 | 8.4 | 10.5 | 2,963.0 |
| | Dominion Resources, Inc. | D | 41.9 | 49.4 | 38.6 | 24,287.9 | 25,169.4 | 47.9 | 182.4 | 138.0 | 191,985.6 | 3.8 | 21.0 | 0.9 | 14.7 | 14.2 | 6.4 | 4.9 | 1,323.0 |
| | XTO Energy Inc. | XTO | 41.4 | 73.7 | 40.8 | 22,730.9 | 27,136.4 | 110.8 | 1,881.6 | 14.4 | 89,406.9 | 17.0 | 31.4 | 0.6 | 8.5 | 9.7 | 10.3 | 1.8 | 3,617.0 |
| | EOG Resources, Inc. | EOG | 79.9 | 145.0 | 72.3 | 19,889.1 | 23,516.6 | 106.3 | 1,290.9 | 18.2 | 80,767.9 | 12.1 | 29.0 | 0.9 | 12.2 | 11.7 | 6.3 | 3.0 | 3,548.4 |
| | Anadarko Petroleum Corporation | APC | 41.5 | 81.4 | 41.0 | 19,460.2 | 37,085.4 | 212.3 | 2,431.3 | 15.3 | 63,749.7 | 11.5 | 35.4 | 2.8 | 24.5 | 19.2 | 8.8 | 14.2 | 3,830.0 |
| | Chesapeake Energy Corporation | CHK | 28.9 | 74.0 | 28.8 | 16,749.3 | 21,973.3 | 119.0 | 1,813.1 | 12.1 | 67,372.6 | 15.2 | 38.1 | 0.6 | 20.0 | 15.5 | 6.4 | 13.9 | 7,863.0 |
| | Talisman Energy Inc. | TLM | 12.2 | 25.7 | 12.2 | 12,484.8 | 15,901.8 | 135.2 | 1,348.2 | 11.8 | 42,946.0 | 10.0 | 38.6 | 1.2 | 22.7 | 22.2 | 12.4 | 11.7 | 4,471.0 |
| | The Williams Companies, Inc. | WMB | 19.1 | 40.8 | 18.9 | 10,983.7 | 14,689.1 | 55.7 | 690.5 | 21.3 | 96,314.9 | 12.4 | 22.5 | 1.0 | 8.6 | 8.6 | 8.2 | 0.2 | 1,412.0 |
| | Murphy Oil Corporation | MUR | 54.3 | 101.5 | 52.4 | 10,344.2 | 13,252.0 | 32.8 | 276.7 | 47.9 | 147,694.3 | 8.4 | 35.0 | 0.8 | 26.0 | 25.6 | 7.8 | 9.4 | 1,820.3 |
| | Nexen Inc. | NXY | 19.5 | 42.7 | 19.3 | 10,345.8 | 12,880.5 | 69.0 | 415.7 | 31.0 | 68,136.0 | 6.0 | 44.5 | 1.4 | 71.1 | 44.2 | 8.4 | 21.6 | 2,513.0 |
| | Southwestern Energy Company | SWN | 29.3 | 52.7 | 21.3 | 10,065.5 | 11,407.3 | 18.9 | 241.7 | 47.2 | 219,979.7 | 12.8 | 33.1 | 0.5 | 12.9 | 13.0 | 4.7 | 4.3 | 1,369.3 |
| Medium Capitalization (>$2Billion <$ 10 Billion) | Pennwest Energy Trust | PWT.UN | 22.8 | 35.6 | 22.8 | 8,710.5 | 9,947.7 | 37.3 | 303.6 | 32.8 | 97,311.1 | 8.1 | 35.3 | 1.3 | 111.0 | 20.0 | 13.1 | 14.7 | 661.7 |
| | Noble Energy, Inc. | NBL | 46.6 | 105.1 | 46.5 | 8,051.3 | 10,279.1 | 72.6 | 880.3 | 11.7 | 51,696.3 | 12.1 | 29.6 | 1.4 | 15.4 | 13.2 | 6.9 | 7.1 | 1,728.7 |
| | Ultra Petroleum Corp. | UPL | 50.9 | 102.8 | 49.4 | 7,774.5 | 8,758.7 | 20.2 | 496.6 | 17.6 | 158,110.3 | 24.6 | 28.1 | 0.7 | 4.1 | 4.1 | 6.7 | 1.6 | 712.3 |
| | El Paso Corporation | EP | 11.0 | 22.5 | 10.8 | 7,685.2 | 9,578.4 | 48.2 | 518.3 | 18.5 | 72,602.3 | 10.8 | 31.5 | 0.7 | 22.5 | 80.3 | 5.8 | 8.9 | 1,625.0 |
| | Pioneer Natural Resources Company | PXD | 45.7 | 82.1 | 36.4 | 5,467.3 | 6,812.2 | 41.4 | 963.8 | 7.1 | 60,099.6 | 23.3 | 22.8 | 0.5 | 23.4 | 12.4 | 8.6 | 10.6 | 1,945.6 |
| | Range Resources Corporation | RRC | 34.2 | 76.8 | 33.6 | 5,296.7 | 7,387.4 | 19.6 | 372.1 | 19.9 | 137,513.3 | 19.0 | 26.4 | 0.6 | 9.9 | 10.7 | 9.7 | 1.9 | 823.5 |
| | Petrohawk Energy | HK | 16.2 | 54.5 | 14.0 | 4,005.1 | 5,733.3 | 19.4 | 176.9 | 32.4 | 107,866.3 | 9.1 | 32.9 | 0.5 | 21.8 | 18.0 | 12.7 | 16.2 | 1,108.5 |
| | Denbury Resources Inc. | DNR | 15.4 | 40.3 | 15.2 | 3,802.4 | 5,313.5 | 16.1 | 194.7 | 27.3 | 120,444.0 | 12.1 | 32.0 | 1.0 | 14.5 | 14.0 | 12.7 | 5.6 | 656.1 |
| | Forest Oil Corporation | FST | 41.2 | 83.1 | 40.9 | 3,699.4 | 4,683.3 | 26.0 | 353.2 | 13.3 | 65,867.9 | 13.6 | 26.8 | 0.3 | 41.1 | 19.6 | 8.7 | 11.2 | 1,252.9 |
| | Newfield Exploration Company | NFX | 27.5 | 69.8 | 26.7 | 3,632.6 | 4,564.5 | 41.6 | 416.1 | 11.0 | 40,097.5 | 10.0 | 29.7 | 0.5 | 19.6 | 16.8 | 8.3 | 12.1 | 2,174.0 |
| | Cimarex Energy Co. | XEC | 42.2 | 74.5 | 37.0 | 3,509.3 | 4,140.7 | 28.8 | 245.4 | 16.9 | 52,475.0 | 8.5 | 34.3 | 1.0 | 23.1 | 16.3 | 9.4 | 10.1 | 1,006.1 |
| | Plains Exploration & Production Co. | PXP | 29.5 | 79.9 | 29.2 | 3,174.2 | 4,039.3 | 23.1 | 689.9 | 5.9 | 63,951.4 | 29.9 | 27.6 | 0.1 | 23.2 | 14.5 | 12.9 | 37.7 | 2,644.9 |
| | Cabot Oil & Gas Corporation | COG | 29.0 | 72.9 | 28.6 | 2,996.1 | 4,018.2 | 14.2 | 269.3 | 14.9 | 102,977.7 | 18.9 | 30.9 | 0.9 | 11.4 | 11.5 | 6.9 | 3.5 | 586.6 |
| | EXCO Resources, Inc. | XCO | 11.6 | 40.9 | 11.4 | 2,446.2 | 3,812.7 | 20.2 | 310.9 | 12.3 | 68,842.5 | 15.4 | 28.1 | 0.2 | 21.5 | 14.2 | 13.2 | 4.8 | 564.6 |
| | Quicksilver Resources | KWK | 14.3 | 45.0 | 14.1 | 2,269.9 | 3,435.7 | 13.0 | 258.3 | 13.3 | 96,527.3 | 19.9 | 23.7 | 0.5 | 7.7 | 7.7 | 10.2 | 4.2 | 852.5 |
| | Whiting Petroleum Corporation | WLL | 56.2 | 112.4 | 44.6 | 2,380.1 | 3,296.7 | 14.7 | 250.8 | 13.1 | 81,822.3 | 17.1 | 31.2 | 0.9 | 68.5 | 12.3 | 16.2 | 24.8 | 576.4 |
| Small Capitalization (<$2 Billion) | St. Mary Land & Exploration Company | SM | 30.4 | 65.6 | 30.3 | 1,888.4 | 2,312.5 | 17.9 | 181.1 | 12.8 | 47,108.6 | 10.1 | 32.0 | 0.7 | 16.8 | 14.9 | 12.3 | 6.8 | 698.4 |
| | Comstock Resources, Inc. | CRK | 40.6 | 90.6 | 28.5 | 1,866.6 | 2,490.6 | 14.6 | 174.8 | 14.2 | 62,342.6 | 12.0 | 32.8 | 0.7 | 26.7 | 19.7 | 10.1 | 6.3 | 540.1 |
| | Penn Virginia Corporation | PVA | 42.8 | 81.0 | 37.0 | 1,790.3 | 2,435.1 | 6.8 | 113.3 | 21.5 | 131,454.4 | 16.8 | 34.3 | 0.4 | 14.9 | 13.2 | 7.4 | 3.6 | 432.3 |
| | Encore Acquisition Company | EAC | 33.3 | 79.6 | 26.1 | 1,774.0 | 2,407.4 | 13.5 | 231.3 | 10.4 | 64,902.2 | 17.1 | 28.1 | 0.4 | 16.5 | 15.7 | 13.7 | 7.8 | 419.8 |
| | W&T Offshore, Inc. | WTI | 22.2 | 60.0 | 22.0 | 1,693.4 | 2,313.4 | 21.1 | 106.5 | 21.7 | 40,039.8 | 5.0 | 34.6 | 1.6 | 33.2 | 26.1 | 10.3 | 21.7 | 357.6 |
| | Berry Petroleum Company | BRY | 29.8 | 62.2 | 29.7 | 1,327.7 | 1,825.4 | 9.8 | 169.2 | 10.8 | 67,850.2 | 17.2 | 26.0 | 0.9 | 12.9 | 11.1 | 13.3 | 5.4 | 351.6 |
| | Goodrich Petroleum Corp. | GDP | 35.0 | 86.2 | 16.6 | 1,314.0 | 1,695.5 | 2.8 | 59.6 | 28.4 | 217,706.9 | 21.0 | 24.3 | 0.2 | 13.0 | 13.0 | 16.0 | 1.1 | 298.1 |
| | Swift Energy Company | SFY | 34.3 | 68.5 | 34.1 | 1,056.9 | 1,295.4 | 12.0 | 150.1 | 8.6 | 39,388.5 | 12.5 | 33.3 | 0.7 | 26.2 | 23.6 | 9.6 | 3.7 | 396.7 |
| | Delta Petroleum Corporation | DPTR | 10.1 | 28.4 | 9.9 | 1,038.1 | 1,535.9 | 3.0 | 62.6 | 24.5 | 189,363.8 | 21.1 | 34.1 | 0.4 | 11.6 | 12.0 | 11.3 | 3.6 | 157.4 |
| | Stone Energy Corporation | SGY | 35.3 | 74.0 | 34.8 | 1,013.7 | 1,272.6 | 13.6 | 67.1 | 19.0 | 34,147.8 | 4.9 | 34.9 | 3.2 | 30.5 | 31.9 | 9.1 | 9.1 | 145.3 |
| | Compton Petroleum Corporation | CMZ | 4.2 | 13.1 | 4.1 | 540.3 | 798.1 | 9.1 | 121.4 | 6.6 | 32,119.2 | 13.4 | 30.5 | 1.2 | 18.3 | 15.8 | 12.6 | 5.7 | 322.9 |
| | ATP Oil & Gas Corporation | ATPG | 15.8 | 57.6 | 15.6 | 567.6 | 2,086.9 | 10.7 | 119.3 | 17.5 | 71,408.7 | 11.2 | 39.3 | 0.5 | 40.7 | 20.7 | 8.0 | 5.6 | 949.0 |
| | Energy Partners, Ltd. | EPL | 7.0 | 16.5 | 7.0 | 225.3 | 311.8 | 8.8 | 45.3 | 6.9 | 12,923.0 | 5.1 | 30.2 | 1.0 | 46.4 | 36.0 | 12.9 | 21.6 | 315.1 |

**Source: GlobalData**

# 2 Investment Summary

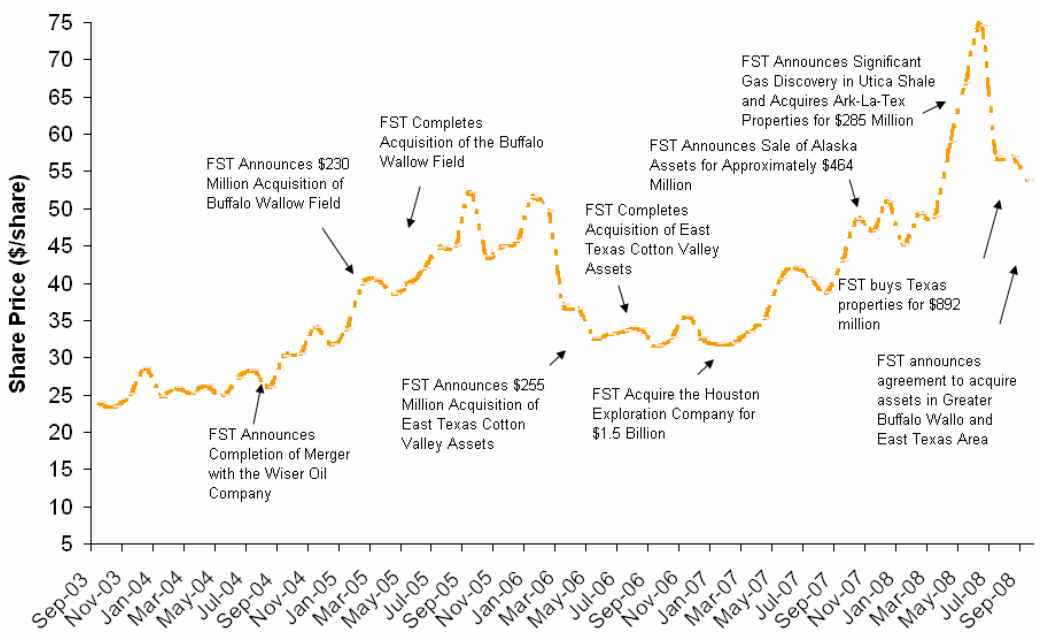
**Forest Oil is a $4.5 billion market cap; NYSE listed E&P Company**

Forest Oil Corporation (FST) is a $4.5 billion market cap, NYSE listed, mid-size, independent exploration and production company. The company is focused on acquiring, developing, exploring and producing oil and gas properties mainly in the US and Canada. FST also has international exploration and development interest in Italy and South Africa. The company has been actively pursuing growth through acquisitions, with several properties being acquired in the past several years.

The company's fair value based on sum-of-the-parts NAV comprises of a commercial reserves value of $75.0 per share and risked unproven reserves potential exploration value upside of $15.3 per share. Risked value is dominated by the company's stake in Rockies and Permian Basin.

**Company has operations across the US, Canada, Gabon and South Africa**

**Figure 1: Forest Oil Corporation, Share Price Performance, September 2003-September 2008**




**Source: GlobalData**

## 2.1 Strong Commodity Prices and Resource Potential Providing Attractive Valuation Upside

Based on the company's recent result and revised growth outlook, we estimate the NAV of Forest Oil Corporation (FST) to be $75/shares. FST is currently trading at a 83% to a $59.7/share proved NAV.

Figure 2 shows FST'S net asset value split by its assets. Our $75.0/share NAV is composed of:

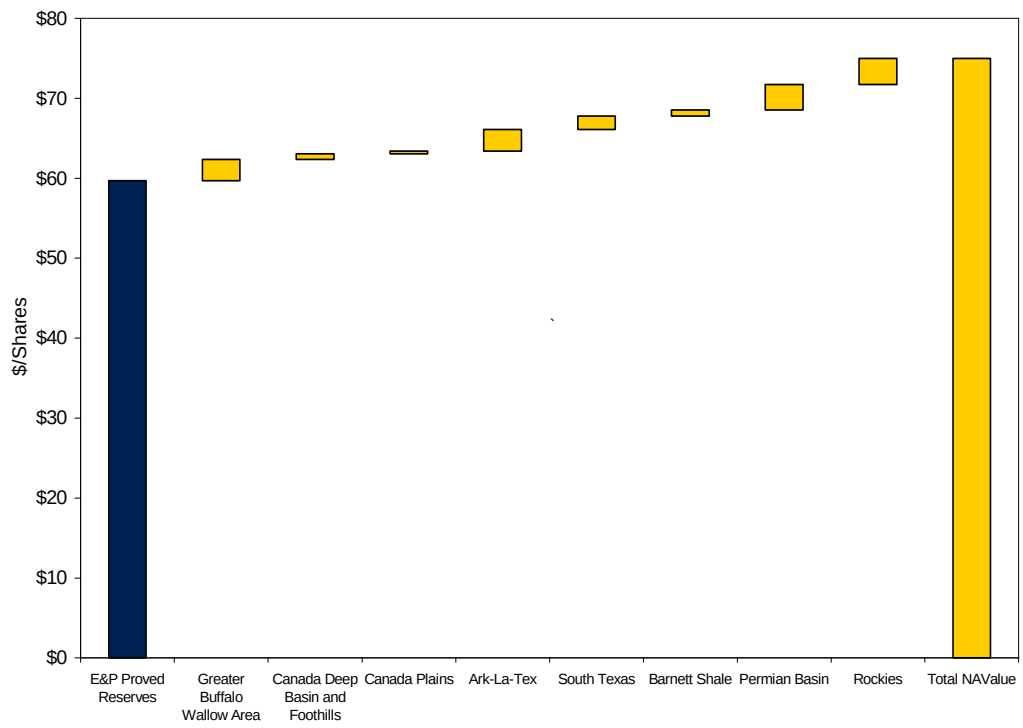
1) $81.8 per share for 429.9 MMboe of proved reserves less

2) $22.1 per share of net debt.

To this proved NAV we added an additional $15.3 per shares for resource potential for the company.

**FST is currently trading at a 83% to a $59.7/share proved NAV**

**Figure 2: Forest Oil Corporation, Valuation By Assets, $/shares, 2008**




**Source: GlobalData**

With natural gas accounting for the majority of projected revenue, the company is concentrated on a commodity that we believe has a sharp appreciation potential in the next few years.

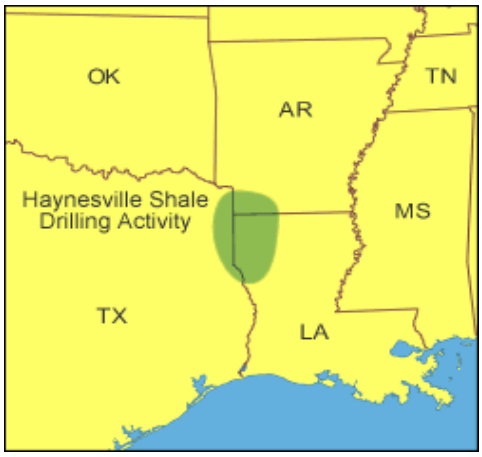
## 2.2 Haynesville Shale Acreage Presents Potential Upside

**Haynesville Shale may hold around 20 Tcfe of potential reserves.**

Compared to other shale in the US, Haynesville Shale is still not yet fully exploited. It will take significant exploration work to de-risk this acreage. Companies with holding in Haynesville Shale have seen their shares soaring to new highs. According to Chesapeake Energy, the Haynesville Shale may hold 20 trillion cubic feet equivalent of potential reserves. Today Haynesville Shale acreage holding is considered to be a premium asset holding in the company's assets portfolio.

The Haynesville Shale is black, organic-rich shale of Upper Jurassic age that underlies much of the Gulf Coast area of the United States. "Haynesville Shale" is a driller's term for shale rock units within the Haynesville Formation. Haynesville Shale is located in Northwest Louisiana and East Texas. Today, natural gas production from the Haynesville occurs from rocks about two miles beneath northwestern Louisiana, southwestern Arkansas and eastern Texas. The most productive areas have been Caddo, Bienville, Bossier, DeSoto, Red River and Webster Parishes of Louisiana plus adjacent areas in southwest Arkansas and east Texas.

**Figure 3: Haynesville Shale Map, 2008**




**Source: GlobalData**

**Haynesville Shale provides substantial upside to the company**

Forest Oil Corporation (FST) has 143,000 gross and 113,000 net acres in East Texas / North Louisiana, of which an estimated 114,000 gross acres (105,000 net acres) is prospective for the Haynesville Shale. The company has 5,071 Bcfe net unrisked potential in Haynesville shale. The majority of FST´s acreage is in Harrison County, Texas and Red River, Webster and Bienville Parishes of Louisiana.

**We estimate that FST's Haynesville projects could be worth $2.7 Billion or $30/share**

The company has commenced 1-15 vertical pilot programs for 2008 to test Haynesville shale to identify potential horizontal targets. The company then plans to follow up with a combined vertical and horizontal program to optimize the economics in the play. Forest intends to commence 2-3 horizontal wells program in the fourth quarter of 2008.

Using $/2P value of 10.80 (Average deal multiple in August 2008) and assuming only 30% of FST's acreage is commercial, we estimate that FST's Haynesville projects could be worth $2.7 Billion or $30/share.

**Table 3: Haynesville Shale, Recent Transaction Metrics**

| Buyer | Seller | Date | Transaction Value ($ Million) | Net Acres | $ Value Per Acre |
|---|---|---|---|---|---|
| Chesapeake Energy Corporation | International Paper Company | Sep-08 | $263 | 13,000 | $20,231 |
| Cabot Oil and Gas | Private | Jun-08 | $181 | 24,250 | $7,464 |
| Berry Petroleum | Private | Jun-08 | $14 | 4,500 | $3,111 |
| Chesapeake | Goodrich | Jun-08 | $178 | 10,250 | $17,366 |
| Plains Exploration & Production Company | Chesapeake Energy Corporation | Jun-08 | $1,650 | 110000 | $15,000 |
| Goodrich Petroleum | Private | May-08 | $32 | 3,250 | $9,846 |

**Source: GlobalData**

Table 2 shows Haynesville Shale acreage valuation position of different E&P companies, using a conservative valuation of 12,000/acre.

**Table 2: E&P Companies with exposure to the Haynesville Shale (Valuing at $12k/acre)**

| Company Name | Acreage | Share Price | Share Outstanding | Value ($ MM) | Value/Share | % of Current Share Price |
|---|---|---|---|---|---|---|
| Chesapeake Energy Corporation | 500,000 | 37.9 | 579.2 | 6,000.0 | 10.4 | 27.31% |
| EnCana Corporation | 370,000 | 69.3 | 750.2 | 4,440.0 | 5.9 | 8.54% |
| PetroHawk Energy Corp. | 300,000 | 23.2 | 247.2 | 3,600.0 | 14.6 | 62.79% |
| Devon Energy | 135,788 | 98.8 | 441.8 | 1,629.5 | 3.7 | 3.73% |
| Cabot Oil & Gas Corporation | 135,000 | 38.9 | 103.4 | 1,620.0 | 15.7 | 40.32% |
| EXCO Resources, Inc. | 119,800 | 18.1 | 210.9 | 1,437.6 | 6.8 | 37.71% |
| Forest Oil Corporation | 113,000 | 52.2 | 89.8 | 1,356.0 | 15.1 | 28.95% |
| Plains Exploration & Production Company | 110,000 | 37.5 | 107.6 | 1,320.0 | 12.3 | 32.68% |

**Source: GlobalData**

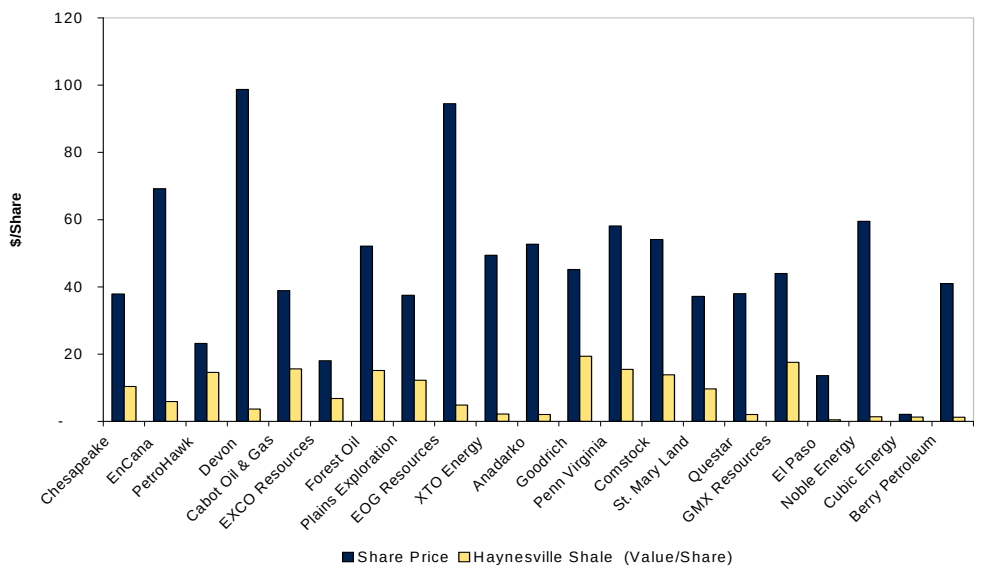
**Table 4: E&P Companies with exposure to the Haynesville Shale ( Valuing at $12k/acre )**

| Company Name | Acreage | Share Price | Share Outstanding | Value ($ MM) | Value/Share | % of Current Share Price |
|---|---|---|---|---|---|---|
| EOG Resources, Inc. | 100,000 | 94.5 | 248.8 | 1,200.0 | 4.8 | 5.10% |
| XTO Energy Inc. | 100,000 | 49.4 | 549.3 | 1,200.0 | 2.2 | 4.42% |
| Anadarko Petroleum Corporation | 80,000 | 52.7 | 468.5 | 960.0 | 2.0 | 3.89% |
| Goodrich Petroleum Corp. | 60,500 | 45.2 | 37.5 | 726.0 | 19.3 | 42.82% |
| Penn Virginia Corporation | 54,000 | 58.2 | 41.8 | 648.0 | 15.5 | 26.61% |
| Comstock | 53,000 | 54.1 | 46.0 | 636.0 | 13.8 | 25.54% |
| St. Mary Land & Exploration Company | 50,000 | 37.2 | 62.2 | 600.0 | 9.6 | 25.95% |
| Questar Corp. | 29,500 | 38.0 | 173.3 | 354.0 | 2.0 | 5.38% |
| GMX Resources Inc. | 27,500 | 44.0 | 18.8 | 330.0 | 17.5 | 39.82% |
| El Paso Corporation | 27,000 | 13.7 | 701.2 | 324.0 | 0.5 | 3.38% |
| Noble Energy, Inc. | 19,000.0 | 59.5 | 172.7 | 228.0 | 1.3 | 2.22% |
| Cubic Energy, Inc. | 6,326 | 2.1 | 58.5 | 75.9 | 1.3 | 61.80% |
| Berry Petroleum Company | 4,500.0 | 41.0 | 44.5 | 54.0 | 1.2 | 2.96% |

**Source: GlobalData**

**Compared to other Shale in the US, Haynesville Shale is still not yet fully exploited**

**Figure 4: E&P Companies with exposure to the Haynesville Shale ( Valuing at $12k/acre ), 2008**




**Source: GlobalData**

## 2.3 Large and Attractive Asset Base with Substantial Upside

**FST has 18,969 potential drilling locations containing 17.2 Tcf resources potential**

Forest Oil Corporation (FST) has a large development and exploration asset base which provides substantial upside potential to the company. At the end of September 2008, the company had 18,969 potential drilling locations containing 17.2 Tcf resource potential (versus its current 2.1 Tcfe proved base).This reserves upside is based on FST's existing acreage base on ultimate ''fully developed'' downspacing on existing acreage. As shown in table 5 the inventory on current spacing is a mix of the Rockies (23% of total), Permian oil (22%), Greater Buffalo Wallow area (19%), South Texas (12%), ArkLaTex (12%) and Canada (7%).

**Table 5: Forest Oil Corporation, Ultimate Reserves Upside, April 2008**

| | Current Spacing | | Fully Developed Spacing | | Total Ultimate Potential | |
|---|---|---|---|---|---|---|
| **Project Area** | **(Bcfe)** | **(% of Total)** | **(Bcfe)** | **(% of Total)** | **(Bcfe)** | **(% of Total)** |
| Utica Shale | - | 0.0% | 4,138.0 | 64.4% | 4,138.0 | 41.4% |
| Rockies | 822.0 | 23.1% | 599.0 | 9.3% | 1,421.0 | 14.2% |
| Greater Buffalo Wallow | 663.0 | 18.6% | 638.0 | 9.9% | 1,301.0 | 13.0% |
| Permian Oil | 792.0 | 22.3% | - | 0.0% | 792.0 | 7.9% |
| ArkLaTex | 410.0 | 11.5% | 260.0 | 4.0% | 670.0 | 6.7% |
| Canada Plains | 89.0 | 2.5% | 395.0 | 6.1% | 484.0 | 4.8% |
| South Texas | 411.0 | 11.6% | - | 0.0% | 411.0 | 4.1% |
| Barnett Shale | 195.0 | 5.5% | 195.0 | 3.0% | 390.0 | 3.9% |
| Canada - Deep Basin & Foothills | 175.0 | 4.9% | 204.0 | 3.2% | 379.0 | 3.8% |
| **Total** | **3,557.0** | **100.0%** | **6,429.0** | **100.0%** | **9,986.0** | **100.0%** |

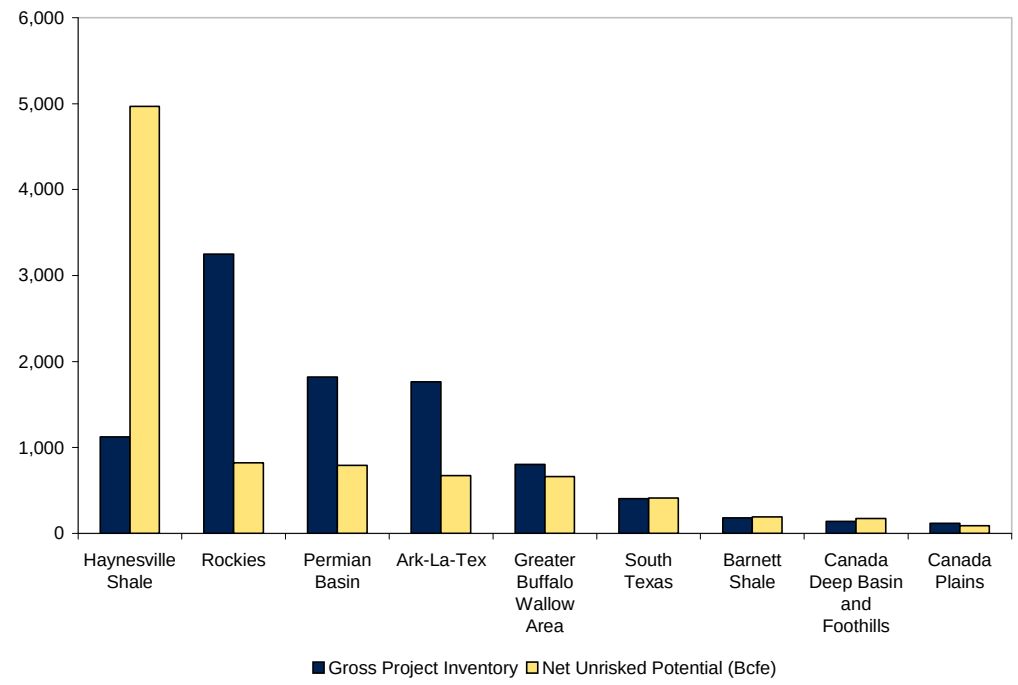
**Source: Company Presentation, GlobalData Estimates**

**Greater Buffalo Wallow Area, Canada Deep Basin, East Texas/North Louisiana, South Texas and Arkoma are core assets of the company**

Greater Buffalo Wallow Area, Canada Deep Basin, East Texas/North Louisiana, South Texas and Arkoma are core assets of the company, containing around 6,457 gross project inventories and 4,639 Bcfe net unrisked resources potential. The company plans to invest around $900m or 70% of the total capital budget of 2008 in these core areas. The company also plans to increase rig count in these areas from 11 in 2007 to 41 in 2008.

The company's unrisked resource potential exploration value of $15.3 per share accounts for 20% of our sum-of-the-parts NAV.

**Figure 5: Forest Oil Corporation, Current Spacing-Net Unrisked Resource Potential, 2008**




**Source: GlobalData**

**Haynesville Shale provides significant potential to the company**

## 2.4 Strategic Acquisitions Adds Value to the company

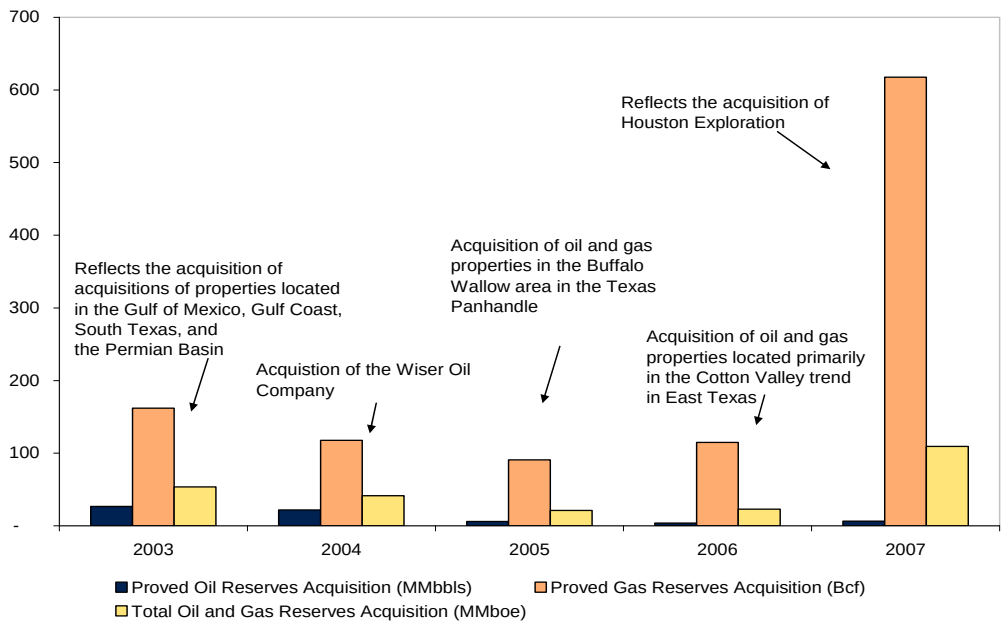
Following its strategy of selective acquisitions of oil or gas properties near its current core areas of operation, Forest Oil Corporation (FST) acquired one major asset in 2007. The acquisitions have given the company an impressive value proposition, growth and stable cash flows. FST has a history of acquiring inexpensive assets and subsequently adding enormous value through development.

**The acquisitions have given the company an impressive value proposition, growth and stable cash flows**

During 2003-07, of the total 326.1 MMboe of proved reserves additions, around 76.3% of the reserves additions were primarily through proved reserves acquired through deals. FST's five years average acquisition cost per boe is around $10.5/boe.

**During 2007, FST made approximately $2.2 billion worth of oil and gas acquisitions**

**Figure 6: Forest Oil Corporation, Proved Crude Oil and Natural Gas Acquisition, 2003-07**




**Source: GlobalData**

During 2007, FST made approximately $2.2 billion worth of oil and gas acquisitions. Acquisition of Houston Exploration in June 2007 was one of the major acquisitions of the company. The oil and gas properties of Houston Exploration included approximately 926,000 net acres, an estimated 653 Bcfe of estimated proved reserves, and production of 204 MMcfe per day. Of the 926,000 net acres, approximately 738,000 net acres were undeveloped.

In May 2008, FST acquired approximately 69,000 gross acres (47,000 net acres), located primarily in its Ark-La-Tex core areas with Haynesville Shale potential. The acquisition adds an additional 500 identified drilling locations in East Texas and North Louisiana to the company's already large drilling inventory in the Ark-La-Tex area. The assets produced approximately 13 MMcfe/d in 2007 and contained an estimated 110 Bcfe of estimated proved reserves.

In August 2008, FST announced its plans to acquire assets in its core Greater Buffalo Wallow and East Texas Areas. The acquisition increases the scale of operations of the company in its core focus area. The company has a well developed expertise for the assets in the Greater Buffalo Wallow and East Texas with the assets being the main engines of organic growth of the company in the last two years. Given the company's expertise in the area, the acquired assets will provide a great opportunity for growth for the company and perfectly fit within the company's present portfolio. The acquisition adds 350 Bcfe of Estimated Proved Reserves With Additional Net Unrisked Potential of 1.2 Tcfe and Approximately 1,500 identified drilling

locations. The transaction implies deal values of $157,411.67 per boe of daily production and $15.29 per boe of proved reserves and $10,494.12 per acre of acreage.

**Table 6: Forest Oil Corporation, Effect Of Acquisition On the Focus Areas**

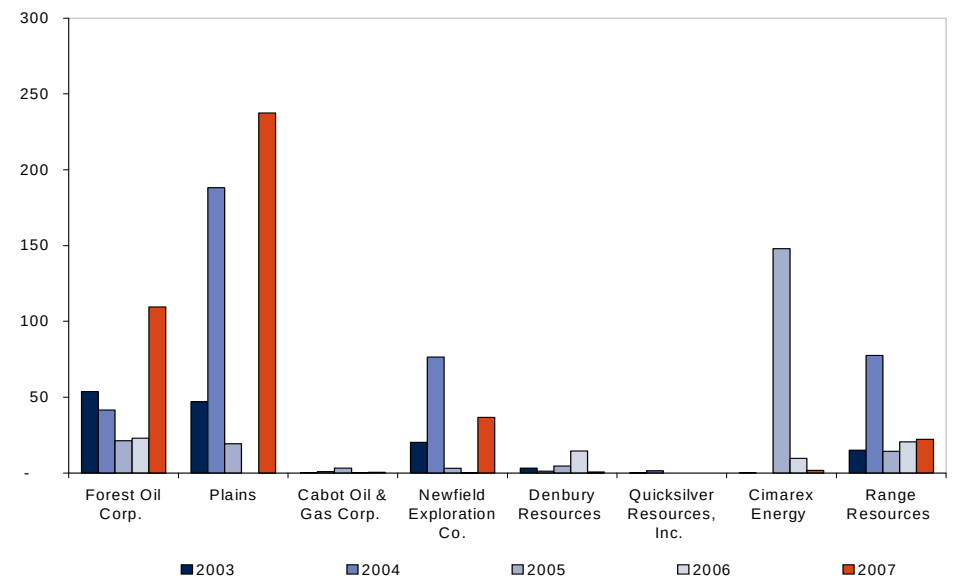
| | Forest Oil, Pre Acquisition | Acquired Properties | % Increase |
|---|---|---|---|
| **Greater Buffalo Wallow Area** | | | |
| Gross acreage (000's) | 51600 | 67700 | 131.2 |
| Net acreage (000's) | 36900 | 54000 | 146.3 |
| 4Q 2008 rig count | 9 | 4 | 44.4 |
| 4Q 2009 rig count | 9 | 6 | 66.7 |
| Estimated proved reserves (Bcfe) | 259 | 206 | 79.5 |
| Gross Unbooked inventory | 1539 | 945 | 61.4 |
| **East Texas / North Louisiana** | | | |
| Gross acreage (000's) | 143000 | 50300 | 35.2 |
| Net acreage (000's) | 113000 | 31000 | 27.4 |
| 4Q 2008 rig count | 12 | 1 | 8.3 |
| 4Q 2009 rig count | 13 | 3 | 23.1 |
| Estimated proved reserves (Bcfe) | 435 | 144 | 33.1 |
| Gross Unbooked inventory | 2967 | 249 | 8.4 |

**Source: GlobalData**

**During 2003-07, FST acquired 248.7 MMboe of proved reserves at a total investment of $2.6 billion**

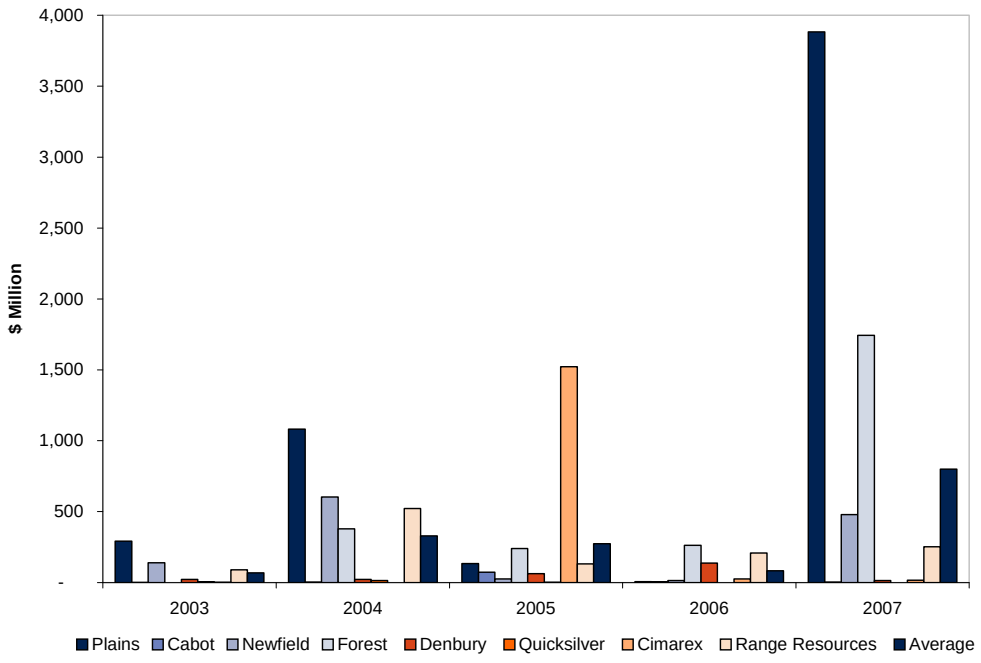
In comparison with its peer group, FST has been actively acquiring oil and gas properties across the US. During 2003-07, FST acquired 248.7 MMboe of proved reserves at a total investment of $2.6 billion (proved properties acquisition cost).

**Figure 7: Forest Oil Corporation Vs Peer-Group, Proved Reserve Acquisition Costs, $ Million, 2003-07**




**Source: GlobalData**

**Figure 8: Forest Oil Corporation Vs Peer-Group, Proved Reserve Additions, MMboe, 2003-07**




**Source: GlobalData**

**Table 7: Forest Oil Corporation, Deals Details, October 2003-August 2008**

| Date | Head Line | Deal Type | Acquirer | Deal Value($m) |
|---|---|---|---|---|
| August-08 | Forest Oil To Acquire Oil And Gas Production Assets From Cordillera Texas | Asset Transactions | Forest Oil Corporation | 892 |
| May-08 | Forest Oil Acquires Ark-La-Tex Properties For $281 Million | Asset Transactions | Forest Oil Corporation | 281 |
| January-08 | Pangea Petroleum Acquires 6% Working Interest In Thompsonville NE Field From Forest Oil | Asset Transactions | Pangea Petroleum Corporation | |
| January-08 | Infinity Energy Sells Oil Gas Properties To Forest Oil | Asset Transactions | Forest Oil Corporation | 17.4 |
| August-07 | Pacific Energy Resources Acquires Oil And Gas Properties From Forest Oil Corporation And Forest Alaska Holding | Asset Transactions | Pacific Energy Resources Ltd. | 461.5 |
| June-07 | Forest Oil Acquires Houston Exploration | Acquisition | Forest Oil Corporation | 1599.28 |
| April-06 | Forest Oil Completes The Acquisition Of East Texas Cotton Valley Assets | Asset Transactions | Forest Oil Corporation | 255 |
| April-05 | Forest Oil Acquires A Private Company | Acquisition | Forest Oil Corporation | 235 |
| June-04 | Forest Oil Subsidiary Merges With Wiser Oil Company | Merger | Forest Oil Corporation | |
| December-03 | Forest Oil Acquires Permian And South Texas Properties | Asset Transactions | Forest Oil Corporation | 103 |
| October-03 | Forest Oil Acquires Properties Of Union Oil Company Of California | Asset Transactions | Forest Oil Corporation | 211 |

**Source: GlobalData**

## 2.5 Utica Shale –Large Resource Potential and Acreage

The Utica Shale is a fairly new natural gas discovery located in the St. Lawrence Lowlands of Quebec, Canada. Many small companies are now drilling extensively to test this shale. Industry estimates regarding the play range from 5 to 25 trillion cubic feet of recoverable resource potential. If proven true, this shale would be in rank of several other shale plays in the US. Forest Oil, Talisman Energy, Equitable Resource, Questerre Energy and Range Resource are some of the companies operating in Utica Basin.

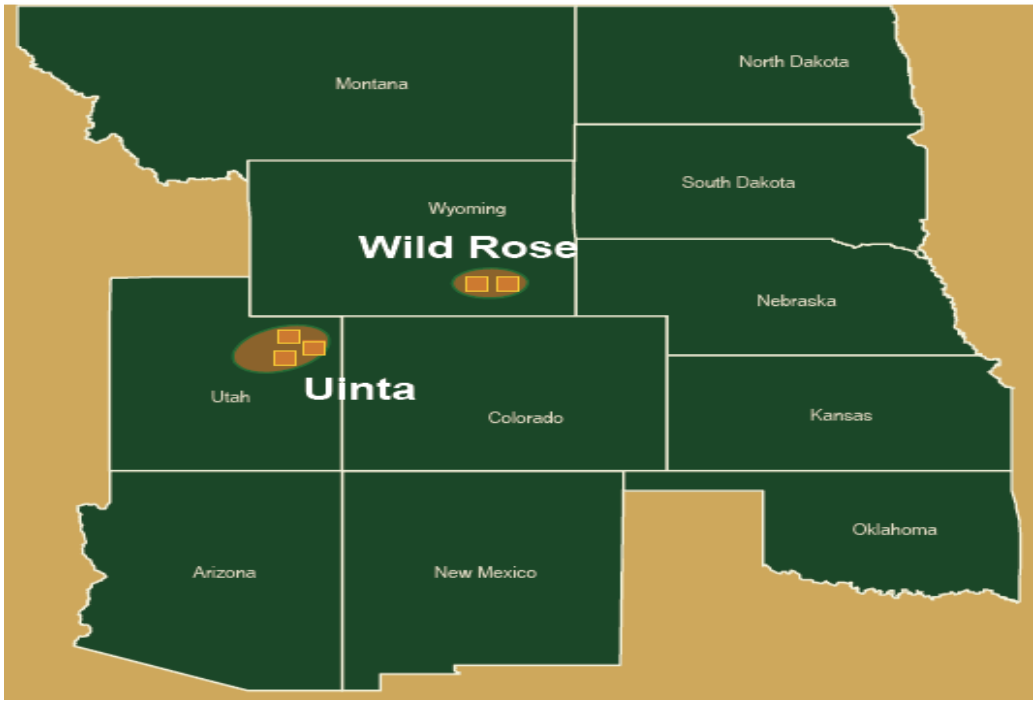
**Industry estimates regarding the play range from 5 to 25 Tcfe of recoverable resource potential**

Forest Oil was the first company to undertake extensive shale testing and drilling in Utica Shale formation. April 2008, FST announced a natural gas discovery in Canada. The discovery is the Utica Shale, located in Quebec, Canada. This recent success in Utica Shale bodes well for the company's long-term organic growth prospects. In Utica Shale, the company has accumulated approximately 269,200 net acres over the last two years, where it drilled two vertical wells in 2007 and plans to drill three horizontal wells in 2008. On full scale development, the company expects costs can be reduced to $2.5 million per well, but initial drilling costs are expected to range between $2.5 million and $4 million per well. The horizontals are budgeted at up to $4 million each. Test wells drilled in 2007 showed production rates upto 1,000 Mcf/d. The company estimates that the resource potential of the area is around 4.1 Tcfe and the average gas in place is 93 Bcfe per section. The company expects first production in 2009, with the potential for a full-scale development program in 2010 and beyond.

**FST was the first company to undertake extensive shale testing and drilling in Utica Shale formation**

**FST estimates that the resource potential of the area is around 4.1 Tcfe**

**Figure 9: Utica Shale Map**




**Source: Company Presentation**

**Table 8: Forest Oil Corporation, Utica Shale, Resource Potential**

| Recovery Efficiency | Net Recoverable (Tcf) | Net Bcf/Well @ 100 acre spacing |
|---|---|---|
| 15% | 3.1 | 1.3 |
| 20% | 4.1 | 1.7 |
| 25% | 5.2 | 2.2 |

**Source: Company Presentation**

# 3 Company Overview

**FST has oil and gas properties in the US, Canada, South Africa, Italy and Gabon**

Forest Oil Corporation primarily engages in the exploration, development, acquisition and production of oil and gas. The company is focused on acquiring, developing, exploring and producing oil and gas properties in the US, Canada, South Africa, Italy and Gabon. The company was incorporated in New York in 1924, and has been a publicly held company since 1969. The company conducts its operations in three geographical segments and five business units. The geographical segments are: the US, Canada, and International. The business units are: Western, Eastern, Southern, Canada, and International. Though the company's operations spread across three geographical segments; the major properties are located in North America.

At the end of 2007, the company's proved reserves were approximately 2.1 Tcfe. Approximately 85% of proved oil and gas reserves were in the US, 12% were in Canada, and remaining 3% were in Italy.

**Table 9: Forest Oil Corporation, Key Corporate Events, 2016-2008**

| Year | Event | Description |
|---|---|---|
| 2008 | Acquisitions/Mergers/Takeovers | Forest Oil Announces Agreement to Acquire Assets in Greater Buffalo Wallow and East Texas Areas and the company also announced Gas Discovery in Utica Shale and acquired Ark-La-Tex Properties. |
| 2007 | Acquisitions/Mergers/Takeovers | During January 2007, the company announced that it had entered into a definitive agreement and plan of merger, pursuant to which The Houston Exploration Company (Houston Exploration) will merge with and into Forest Oil. |
| 2006 | Others | March 2006 saw Forest Oil and Mariner Energy announce the completion of the spin-off of the company's subsidiary, Forest Energy Resources (FERI). FERI owned Forest Oil's Gulf of Mexico operations. |
| 2006 | Acquisitions/Mergers/Takeovers | FERI merged with a subsidiary of Mariner. |
| 2006 | Acquisitions/Mergers/Takeovers | Forest Oil announced that it had completed the acquisition of producing assets including approximately 26,000 net acres (14,000 net undeveloped) located in the cotton Valley play in East Texas in April 2006. |
| 2005 | Acquisitions/Mergers/Takeovers | The company announced the acquisition of an 83% working interest in the Buffalo Wallow Field (a natural gas resource area) and approximately 33,300 gross acres in Hemphill and Wheeler Counties, Texas in April 2005. |
| 2004 | Acquisitions/Mergers/Takeovers | In June 2004, the company acquired The Wiser Oil Company. |
| 2003 | Acquisitions/Mergers/Takeovers | Forest Oil acquired a majority of properties from the Union Oil Company of California (Unocal) in 2003. Further, of the company acquired the property in Permian and Texas through the purchase of a private company. |
| 1996 | Acquisitions/Mergers/Takeovers | In 1996, Forest Oil acquired its Canadian subsidiary, Canadian Forest Oil. The acquisition significantly diversified its production base by expanding the company's borders from the Gulf of Mexico to the Beaufort Sea near the Arctic Circle. |
| 1996 | Corporate Changes/Expansions | In 1996, in the southern region of its operations, the company expanded its assets to include fields in each parish in the transition zone of South Louisiana. |
| 1990 | Acquisitions/Mergers/Takeovers | A major acquisition in the 1990s granted concessions in 10 foreign countries that continue to offer opportunities for international expansion. |
| 1980 | Corporate Changes/Expansions | In the 1980s and 1990s, the company ventured beyond the U.S. borders in its search for oil and gas. It explored the regions in the North Sea, Europe, South America, South Africa, and the Arctic. |
| 1960 | Corporate Changes/Expansions | In the 1960's, it discovered the Eugene Island 292 Field, one of the largest natural gas fields in the Gulf of Mexico. |
| 1960 | Others | During the 1960's and 1970's, Forest Oil performed onshore drilling activities for natural gas, deep under the plains of Oklahoma and Texas, the depth of the wells touched over 20,000 feet. |
| 1953 | Others | The company participated in the first federal offshore lease sale in 1953. |
| 1924 | Incorporation/Establishment | Forest Oil was incorporated in 1924. |
| 1916 | Incorporation/Establishment | Forest Oil was formed in the north-western Pennsylvania in 1916. |

**Source: GlobalData**

## 3.1 Production and Reserves

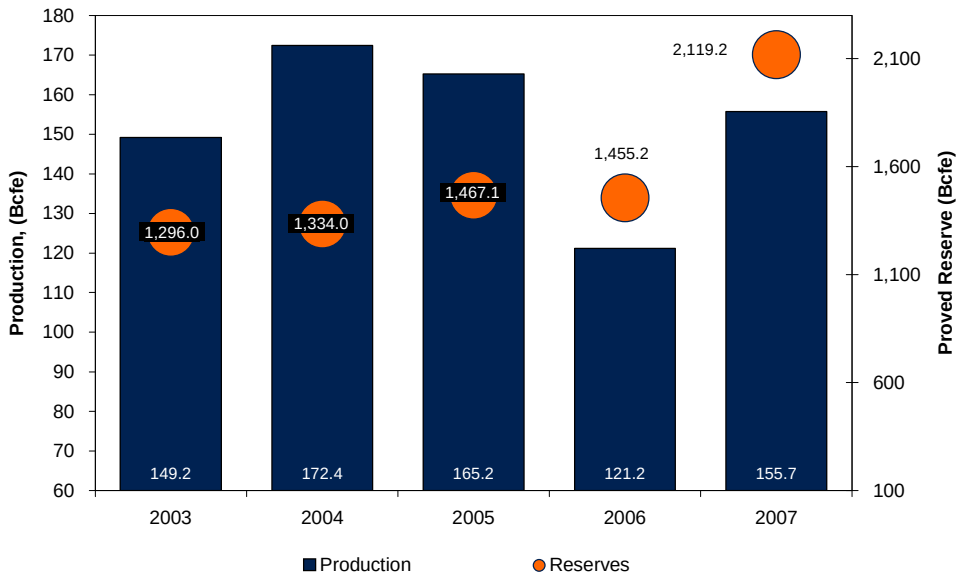
**Increase in production is attributable primarily to Houston Exploration acquisition and in June 2007 and the Ark-La-Tex acquisition in May 2008**

During the second quarter of 2008 (Q2, 2008) Forest Oil Corporation's total production increased significantly by 31.1%, from 35.0 Bcfe in Q2, 2007 to 45.9 Bcfe in Q2, 2008. Natural gas production increased by 52.9% from 22.3 Bcfe in Q1, 2007 to 34.1 Bcfe in Q2, 2008 Meanwhile, total crude oil production went down by 25.1% from 1.5 MMbbls in Q2, 2007 to 1.2 MMbbls in Q2, 2008. The increase in production is attributable primarily to Houston Exploration acquisition in June 2007 and the Ark-La-Tex acquisition in May 2008. On a year on year basis, production went up by 28.5% from 121.2 Bcfe in 2006 to 155.7 Bcfe in 2007.

**For 2008, FST has given a production guidance of around 188 TO 192 Bcfe**

For 2008, FST gave a production guidance of around 188.0 Bcfe to 191.6 Bcfe. Increase in production is attributable to producing properties acquired in late 2007 and during the first half of 2008, and drill-bit production contribution from the existing assets.

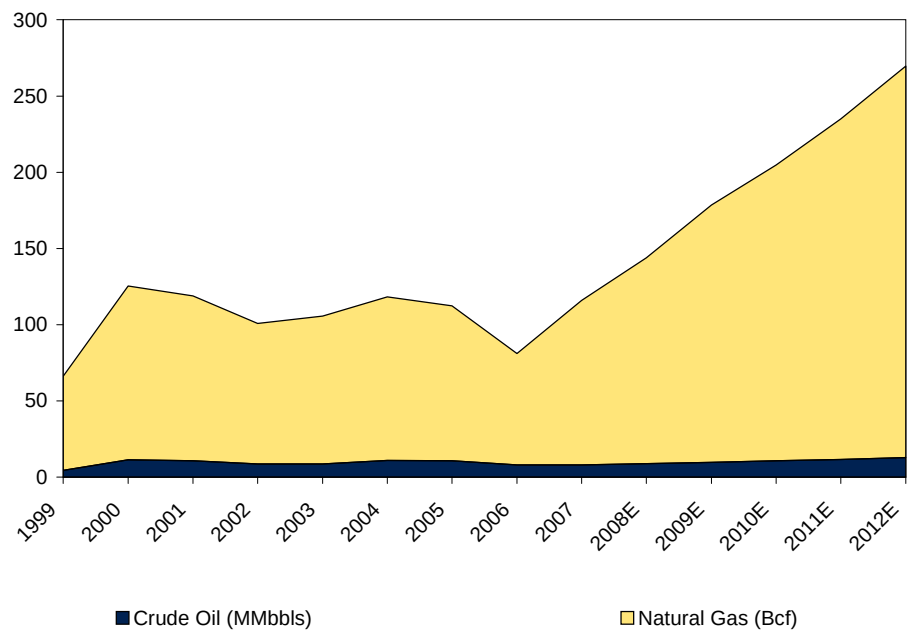
**Figure 10: Forest Oil Corporation, Total Production and Proved Reserves, Bcfe, 2003-2007**




**Source: GlobalData**

Over the next five years, we expect FST's production to increase significantly from 155.7 Bcfe in 2007 to an expected 333.5 Bcfe in 2012, which is an increase of 114% over the five years.

**Figure 11: Forest Oil Corporation, Crude Oil and Natural Gas Production Profile, 1999-2012**




**Source: GlobalData**

**Over the next five years, we expect FST's production to increase significantly from 155.7 Bcfe in 2007 to an expected 333.5 Bcfe in 2012, which is an increase of 114% over the five years**

At the end of 2007, FST had proved reserves of 2,119.2 Bcfe, of which 73.3% comprised of natural gas and 70.4% were proved developed. The company has a total proved reserve life of 13.6 years. After adjusting for assets acquisition and sales, the company's current proved reserves are expected to be around 2.6 tcf, of which 74% is expected to be natural gas.

The company has around 17.1 Tcfe of net unrisked resource potential spread across 18,969 potential drilling locations. Around 8.9 Tcfe of this net unrisked resource potential is located in company's shale plays (Utica, Barnet, Greater Vermejo/Haley and Haynesville Shale).

**The company has around 17.1 Tcfe of net unrisked resource potential spread across 18,969 potential drilling locations**

In 2007, FST replaced 646.2% of its 2007 production, increased proved reserves by 45.6% to 2,119.2 Bcfe and increased reserve life Index to 13.6 years as compared to 12.0 years in 2006. FST's 2007 reserves performance significantly benefited from 656.4 Bcfe of reserves acquisition. Around 85% of total proved reserves are located in the US, 12% in Canada, and 3% in Italy.

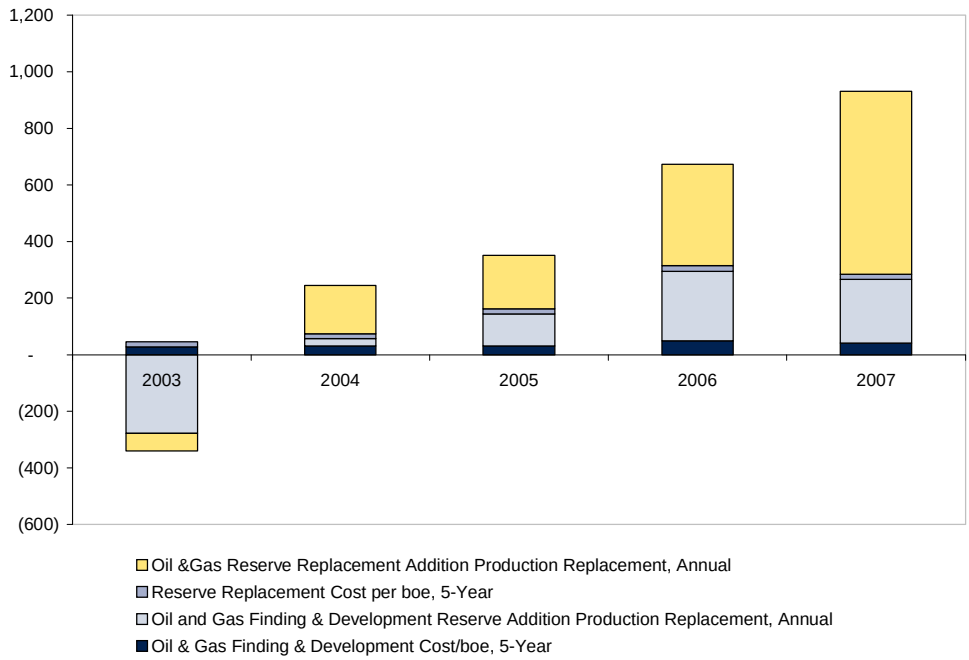
**Table 10: Forest Oil Corporation, Production Parameters and Metrics, 2003-07**

| Parameters | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Crude Oil & Liquids | Bbl/d | 23,838.4 | 29,690.4 | 28,953.4 | 21,989.0 | 21,767.1 |
| Natural Gas | Mmcf/d | 265.7 | 294.2 | 279.0 | 200.1 | 296.0 |
| Total Production | Boe/d | 68,120.1 | 78,716.0 | 75,452.5 | 55,333.3 | 71,101.4 |
| Production per Share (000's) | Boe/Sh. | 493.8 | 494.6 | 438.0 | 318.4 | 333.8 |
| Production Growth | % | 3.6% | 15.6% | -4.1% | -26.7% | 28.5% |
| Production / D.A. Share Growth (Year over Year) | % | -5.8% | 7.7% | 0.8% | -36.8% | 17.2% |
| Natural Gas Weighting | % | 65.0% | 62.3% | 61.6% | 60.3% | 69.4% |
| Production per Debt | Boe/Sh. | 310.6 | 334.5 | 337.3 | 213.1 | 249.6 |
| Production / Share Growth (Year over Year) | % | -0.8% | 0.2% | -11.4% | -27.3% | 4.8% |

**Source: GlobalData**

We estimate 2007 F&D including revision at $21.4 per BOE with a 646.2% reserve replacement rate.

**Figure 12: Forest Oil Corporation, Reserves Performance Metrics, 2007**




**Source: GlobalData**

## Table 11: Forest Oil Corporation, Reserves Parameters and Metrics, 2003-07

| Parameters | Unit | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| FD&A Costs, Including Changes in FDC | $/Boe | (3.0) | 35.9 | 32.2 | 10.8 | 22.3 |
| FD&A Costs, Excluding Changes in FDC | $/Boe | (4.4) | 36.0 | 17.4 | 12.6 | 13.8 |
| Reserve Life Index-Proved Developed | Years | 6.5 | 6.0 | 6.5 | 8.5 | 9.6 |
| Reserve Life Index-Proved | Years | 8.7 | 7.7 | 8.9 | 12.0 | 13.6 |
| Production Replacement - Organic | % | -278% | 27% | 113% | 245% | 225% |
| Production Replacement - Net Acquisitions | % | 201% | 95% | 68% | -155% | 302% |
| Production Replacement - Organic & Net Acquisitions | % | -77% | 122% | 181% | 90% | 526% |
| Reserve Summary - Oil and Liquids | | | | | | |
| Proved Developed | MMbbls | 60.9 | 67.0 | 71.6 | 78.3 | 66.6 |
| Proved Undeveloped | MMbbls | 20.5 | 21.8 | 25.5 | 34.6 | 27.9 |
| Proved | MMbbls | 81.3 | 88.8 | 97.1 | 112.9 | 94.5 |
| Reserve Summary - Natural Gas | | | | | | |
| Proved Developed | Bcf | 610.1 | 627.1 | 639.4 | 566.1 | 1,092.1 |
| Proved Undeveloped | Bcf | 198.0 | 174.0 | 245.3 | 211.9 | 460.3 |
| Proved | Bcf | 808.1 | 801.1 | 884.7 | 778.0 | 1,552.4 |
| Reserve Summary - Total Oil Equivalent | | | | | | |
| Proved Developed | MMboe | 162.5 | 171.6 | 178.2 | 172.6 | 248.6 |
| Proved Undeveloped | MMboe | 53.5 | 50.8 | 66.4 | 69.9 | 104.6 |
| Proved | MMboe | 216.0 | 222.3 | 244.5 | 242.5 | 353.2 |
| Total Oil Equivalent -% Proved that is Oil | % | 38% | 40% | 40% | 47% | 27% |

**Source: GlobalData**

## 3.2 Exploration and Appraisal

**During 2003-07, FST's drilling program achieved 85% success rate**

During 2003-07, Forest Oil Corporation (FST) participated in 240.7 net exploratory wells, of which 216.3 net wells were successful. The company has 468.6 net development wells, of which 439.7 were successful. During 2003-07, FST's drilling program achieved 85% success rate. During this period, the company incurred aggregate oil and gas acquisition, development and exploration costs of $6.2 billion, approximately 59.1% of which was for proved and unproved property acquisition. During this period, proved reserve additions totaled 248.7 MMboe.

**In 2008, FST expects to invest around $1.15-$1.25 billion on organic capital investment**

In 2008, FST plans to concentrate more on its core assets and emerging shale play and expects to invest more than 70% of the capital budget on these areas. In 2008 till date, FST has invested $868.7 million on various exploration, development and acquisition activities, of which around 88% was invested in the US and 36% or $310 million was invested on property acquisition. In 2008, FST expects to invest around $1.15-$1.25 billion on capital investment (excluding acquisition expenditure).

In shale play, we expect the company to concentrate more on testing Utica and Haynesville Shale potential. If results are positive, the company will benefit significantly not only by unlocking substantial value from these shales, but also in getting significant experience in these upcoming shales. In 2008, the company plans to drill around 10 wells in Barnett Shale and 2 wells in Greater Vermejo/Haley Ares.

In core areas (Greater Buffalo Wallow Area, Canada Deep Basin, East Texas/N.Louisiana, South Texas and Arkoma), FST expects to drill more than 350 wells in 2008. Apart from organic growth from these areas, the company also expects to grow inorganically through bolt-on acquisitions.

## Table 12: Forest Oil Corporation, Well Data Parameters, By Region, 2004-07

| Parameter | Unit | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| **Developed Oil & Gas Reserves per Well** | MBOE | 47.2 | 45.3 | 50.5 | 46.2 |
| United States | MBOE | 48.0 | 45.4 | 49.5 | 44.3 |
| Canada | MBOE | 42.4 | 44.9 | 55.6 | 53.1 |
| Italy | MBOE | 0.0 | 0.0 | 0.0 | 2,346.2 |
| **Developed Oil Reserves per Well** | Mbbl | 28.8 | 30.3 | 34.0 | 29.2 |
| United States | Mbbl | 29.1 | 31.3 | 35.3 | 30.2 |
| Canada | Mbbl | 25.5 | 21.2 | 22.0 | 20.5 |
| **Developed Gas Reserves per Well** | MMcf | 481.3 | 407.8 | 506.8 | 351.9 |
| United States | MMcf | 522.9 | 416.2 | 522.4 | 329.1 |
| Canada | MMcf | 332.1 | 373.2 | 470.8 | 447.8 |
| Italy | MMcf | 0.0 | 0.0 | 0.0 | 14,077.0 |
| Exploration Success Ratio | % | 80.8 | 94.0 | 93.9 | 90.9 |
| Successful Wells Drilled Ratio | % | 88.5 | 93.9 | 95.9 | 94.1 |
| Exploratory Wells as % of Total Wells Drilled | % | 29.9 | 62.9 | 56.2 | 11.5 |
| Gross Producible Oil & Gas Wells | Number | 9,524.0 | 10,390.0 | 7,603.0 | 9,583.0 |
| Gross Producible Oil Wells | Number | 5,158.0 | 5,140.0 | 3,488.0 | 2,965.0 |
| Gross Producible Gas Wells | Number | 4,366.0 | 5,250.0 | 4,115.0 | 6,618.0 |
| Net Producible Oil & Gas Wells | Number | 3,634.0 | 3,929.0 | 3,421.0 | 5,387.0 |
| Net Producible Oil Wells | Number | 2,331.0 | 2,361.0 | 2,304.0 | 2,284.0 |
| Net Producible Gas Wells | Number | 1,303.0 | 1,568.0 | 1,117.0 | 3,103.0 |
| Net Oil & Gas Wells as % of Gross Oil & Gas Wells | % | 38.2 | 37.8 | 45.0 | 56.2 |
| Net Successful Oil & Gas Developed Wells | Number | 56.0 | 46.0 | 63.0 | 239.0 |
| Net Dry Oil & Gas Developed Wells | Number | 5.0 | 3.0 | 1.0 | 14.0 |
| Net Total Oil & Gas Successful & Dry Developed Wells | Number | 61.0 | 49.0 | 64.0 | 253.0 |
| Net Total Oil & Gas Successful & Dry Exploratory Wells | Number | 26.0 | 83.0 | 82.0 | 33.0 |
| Net Successful Oil & Gas Exploratory Wells | Number | 21.0 | 78.0 | 77.0 | 30.0 |
| Net Dry Oil & Gas Exploratory Wells | Number | 5.0 | 5.0 | 5.0 | 3.0 |
| Total Net Successful & Dry Exploratory & Developed Wells | Number | 87.0 | 132.0 | 146.0 | 286.0 |
| Total Net Successful Exploratory & Developed Wells | Number | 77.0 | 124.0 | 140.0 | 269.0 |
| Total Net Dry Exploratory & Developed Wells | Number | 10.0 | 8.0 | 6.0 | 17.0 |

**Source: GlobalData**

## Table 13: Forest Oil Corporation, Exploration and Development Cost, By Region, 2003-2007

| Parameters | Unit | Currency | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| **Development Costs** | **Million** | **USD** | **200.2** | **183.2** | **280.0** | **364.5** | **655.4** |
| United States | Million | USD | 185.7 | 152.6 | 248.0 | 312.1 | 518.0 |
| Canada | Million | USD | 14.5 | 30.6 | 32.0 | 52.4 | 137.4 |
| **Exploration Costs** | **Million** | **USD** | **104.9** | **91.6** | **260.1** | **262.5** | **148.2** |
| United States | Million | USD | 64.0 | 67.3 | 179.0 | 155.8 | 96.5 |
| Canada | Million | USD | 32.0 | 18.5 | 77.5 | 99.7 | 35.9 |
| International | Million | USD | 8.8 | 5.8 | 3.7 | 7.0 | 15.9 |
| **Exploration Costs Incurred as % of Total** | **%** | **NA** | **13.2** | **12.6** | **29.9** | **26.7** | **4.9** |
| United States | % | NA | 8.7 | 12.2 | 24.4 | 19.0 | 3.4 |
| Canada | % | NA | 68.2 | 11.2 | 66.2 | 65.6 | 20.7 |
| International | % | NA | 99.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Finding & Development Costs Incurred** | **Million** | **USD** | **305.1** | **332.3** | **614.0** | **680.7** | **1,252.9** |
| United States | Million | USD | 249.8 | 263.1 | 496.3 | 521.7 | 1,063.9 |
| Canada | Million | USD | 46.5 | 63.4 | 114.0 | 152.0 | 173.2 |
| International | Million | USD | 8.8 | 5.8 | 3.7 | 7.0 | 15.9 |
| **Finding & Development Costs Incurred, 3-Year Sum** | **Million** | **USD** | **1,220.0** | **987.7** | **1,251.4** | **1,627.0** | **2,547.7** |
| United States | Million | USD | 1,030.8 | 825.6 | 1,009.2 | 1,281.2 | 2,081.9 |
| Canada | Million | USD | 130.8 | 131.2 | 223.9 | 329.4 | 439.2 |
| International | Million | USD | 58.4 | 30.8 | 18.3 | 16.4 | 26.5 |
| **Finding & Development Costs Incurred, 5-Year Sum** | **Million** | **USD** | **1,705.5** | **1,917.6** | **2,166.3** | **2,282.4** | **3,185.0** |
| United States | Million | USD | 1,389.9 | 1,583.4 | 1,790.3 | 1,843.7 | 2,594.8 |
| Canada | Million | USD | 224.2 | 244.9 | 308.2 | 397.2 | 549.1 |
| International | Million | USD | 91.4 | 89.3 | 67.9 | 41.5 | 41.1 |
| **Finding & Development Costs as % of Total Costs Incurred, Annual** | **%** | **NA** | **38.5** | **45.8** | **70.6** | **69.3** | **41.3** |
| United States | % | NA | 33.9 | 47.5 | 67.7 | 63.5 | 37.9 |
| Canada | % | NA | 99.1 | 38.3 | 97.4 | 100.0 | 100.0 |
| International | % | NA | 99.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Finding & Development Costs as % of Total Costs Incurred, 3-Year** | **%** | **NA** | **71.3** | **52.8** | **52.4** | **63.1** | **52.1** |
| United States | % | NA | 67.7 | 51.4 | 49.9 | 60.8 | 47.7 |
| Canada | % | NA | 99.5 | 56.1 | 68.0 | 75.8 | 99.3 |
| International | % | NA | 100.0 | 99.9 | 99.9 | 100.0 | 100.0 |
| **Finding & Development Costs as % of Total Costs Incurred, 5-Year** | **%** | **NA** | **76.7** | **67.9** | **65.5** | **61.3** | **49.7** |
| United States | % | NA | 73.0 | 66.3 | 63.7 | 58.3 | 45.9 |
| Canada | % | NA | 99.7 | 70.5 | 74.5 | 79.0 | 83.9 |
| International | % | NA | 98.8 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Finding & Development Costs as % of Cash Flow** | **%** | **NA** | **78.5** | **61.6** | **98.5** | **144.8** | **184.8** |
| United States | % | NA | 71.8 | 56.5 | 98.7 | 147.9 | 193.3 |
| Canada | % | NA | 114.4 | 86.5 | 94.9 | 129.4 | 135.9 |
| **Finding Cost as % of Cash Flow** | **%** | **NA** | **27.0** | **27.6** | **53.6** | **67.3** | **88.1** |
| United States | % | NA | 18.4 | 23.7 | 49.4 | 59.4 | 99.2 |
| Canada | % | NA | 78.7 | 44.8 | 68.3 | 84.9 | 28.1 |

**Source: GlobalData**

## Table 14: Forest Oil Corporation, Lifting Cost, Finding & Development Cost, Finding Cost, Acquisition Cost, Reserves Replacement Cost, Per Boe, $/Boe, 2003-2007

| Parameters | Unit | Currency | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|
| **Lifting Cost per boe, Annual** | **$/BOE** | | **6.2** | **8.3** | **9.5** | **10.7** | **9.4** |
| United States | $/BOE | | 6.4 | 8.7 | 10.1 | 11.6 | 9.5 |
| Canada | $/BOE | | 4.7 | 5.6 | 6.2 | 7.9 | 8.7 |
| **Lifting Cost per boe, 3-Year** | **$/BOE** | | **6.4** | **7.1** | **8.1** | **9.4** | **9.8** |
| United States | $/BOE | | 6.7 | 7.5 | 8.5 | 9.9 | 10.3 |
| Canada | $/BOE | | 4.5 | 4.8 | 5.6 | 6.7 | 7.7 |
| **Lifting Cost per boe, 5-Year** | **$/BOE** | | **5.6** | **6.4** | **7.5** | **8.2** | **8.7** |
| United States | $/BOE | | 5.8 | 6.7 | 7.8 | 8.6 | 9.1 |
| Canada | $/BOE | | 4.1 | 4.6 | 5.2 | 5.9 | 6.9 |
| **Oil & Gas Finding & Development Cost/boe, Annual** | **$/BOE** | | **-4.4** | **43.6** | **19.8** | **13.7** | **21.5** |
| United States | $/BOE | | -3.6 | 37.9 | 20.7 | 15.2 | 26.4 |
| Canada | $/BOE | | 76.9 | 92.3 | 16.0 | 9.9 | 20.2 |
| **Oil & Gas Finding & Development Cost/boe, 3-Year** | **$/BOE** | | **39.8** | **-28.8** | **-41.1** | **18.4** | **18.3** |
| United States | $/BOE | | 46.6 | -24.0 | -26.0 | 19.7 | 21.1 |
| Canada | $/BOE | | 15.3 | 1,657.1 | 26.7 | 14.3 | 14.2 |
| **Oil & Gas Finding & Development Cost/boe, 5-Year** | **$/BOE** | | **27.3** | **30.5** | **31.2** | **49.3** | **41.2** |
| United States | $/BOE | | 26.3 | 29.8 | 33.8 | 77.5 | 72.6 |
| Canada | $/BOE | | 23.6 | 25.2 | 18.9 | 17.7 | 17.0 |
| **Oil & Gas Finding Cost per boe, Annual** | **$/BOE** | | **10.9** | **17.0** | **17.4** | **10.0** | **9.2** |
| United States | $/BOE | | 9.5 | 16.7 | 21.1 | 9.6 | 12.2 |
| Canada | $/BOE | | 11.0 | 15.3 | 11.0 | 10.1 | 3.2 |
| **Oil & Gas Finding Cost per boe, 3-Year** | **$/BOE** | | **3.9** | **7.9** | **15.6** | **13.4** | **10.8** |
| United States | $/BOE | | 2.9 | 6.5 | 16.8 | 14.1 | 12.8 |
| Canada | $/BOE | | 7.2 | 11.6 | 11.8 | 11.1 | 7.7 |
| **Oil & Gas Finding Cost per boe, 5-Year** | **$/BOE** | | **4.3** | **4.8** | **6.6** | **10.5** | **11.2** |
| United States | $/BOE | | 3.0 | 3.7 | 5.5 | 9.8 | 12.9 |
| Canada | $/BOE | | 8.3 | 7.6 | 9.3 | 10.8 | 8.5 |
| **Proved Acquisition Cost per boe, Annual** | **$/BOE** | | | **9.1** | **11.3** | **11.4** | **15.9** |
| United States | $/BOE | | | 8.7 | 11.5 | 11.4 | 15.9 |
| Canada | $/BOE | | | 10.6 | 5.7 | | |
| **Proved Acquisition Cost per boe, 3-Year** | **$/BOE** | | | **4.0** | **5.3** | **10.3** | **14.6** |
| United States | $/BOE | | | 3.2 | 4.8 | 10.3 | 14.7 |
| Canada | $/BOE | | | 10.6 | 10.4 | 10.4 | 5.7 |
| **Proved Acquisition Cost per boe, 5-Year** | **$/BOE** | | | **3.7** | **5.3** | **6.3** | **10.6** |
| United States | $/BOE | | | 3.0 | 4.8 | 6.0 | 10.6 |
| Canada | $/BOE | | | 10.4 | 10.2 | 10.4 | 10.4 |
| **Proved Reserve Acquisition Costs, Annual** | **Million** | **USD** | | **378.5** | **239.7** | **262.5** | **1,744.1** |
| United States | Million | USD | | 278.5 | 236.6 | 262.5 | 1,744.1 |
| Canada | Million | USD | | 100.0 | 3.0 | | 0.0 |
| **Proved Reserve Acquisition Costs, 3-Year Sum** | **Million** | **USD** | | **378.5** | **618.2** | **880.7** | **2,246.3** |
| United States | Million | USD | | 278.5 | 515.1 | 777.7 | 2,243.3 |
| Canada | Million | USD | | 100.0 | 103.1 | 103.1 | 3.0 |
| **Proved Reserve Acquisition Costs, 5-Year Sum** | **Million** | **USD** | | **378.5** | **618.2** | **880.7** | **2,624.8** |
| United States | Million | USD | | 278.5 | 515.1 | 777.7 | 2,521.8 |
| Canada | Million | USD | | 100.0 | 103.1 | 103.1 | 103.1 |

Source: GlobalData

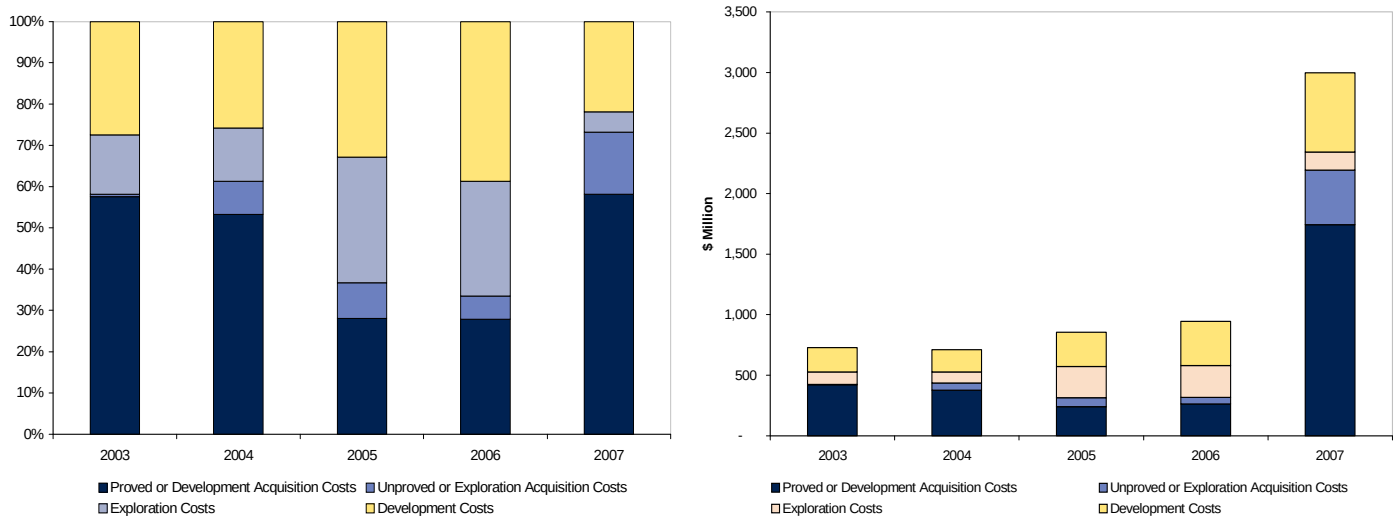
| Table 16: Forest Oil Corporation, Lifting Cost, Finding & Development Cost, Finding Cost, Acquisition Cost, Reserves Replacement Cost, Per Boe ($/Boe), 2003-2007 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Parameters** | **Unit** | **Currency** | **2003** | **2004** | **2005** | **2006** | **2007** |
| **Reserve Replacement Cost per boe, Annual** | **$/BOE** | | **-51.1** | **14.7** | **16.7** | **13.5** | **18.1** |
| United States | $/BOE | | -45.7 | 14.2 | 16.4 | 14.3 | 18.8 |
| Canada | $/BOE | | 77.6 | 16.4 | 15.3 | 9.9 | 20.2 |
| **Reserve Replacement Cost per boe, 3-Year** | **$/BOE** | | **20.2** | **30.6** | **27.8** | **14.8** | **16.7** |
| United States | $/BOE | | 20.0 | 31.1 | 30.0 | 15.0 | 17.3 |
| Canada | $/BOE | | 15.1 | 24.6 | 18.0 | 13.2 | 14.0 |
| **Reserve Replacement Cost per boe, 5-Year** | **$/BOE** | | **18.0** | **17.1** | **17.8** | **20.0** | **19.6** |
| United States | $/BOE | | 16.7 | 16.4 | 17.6 | 20.6 | 20.6 |
| Canada | $/BOE | | 23.3 | 18.0 | 15.7 | 15.5 | 15.5 |

**Source: GlobalData**

| Table 15: Forest Oil Corporation, Acreage Data, 2003-07 | | | | | | |
|---|---|---|---|---|---|---|
| **Parameters** | **Unit** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Total Gross Undeveloped Acreage | Acres | NA | 20,692,604 | 12,549,688 | 9,274,741 | 8,416,575 |
| United States | Acres | NA | 2,106,396 | 2,156,811 | 2,218,451 | 1,498,204 |
| Canada | Acres | NA | 1,419,937 | 1,378,226 | 1,118,462 | 1,082,504 |
| Italy | Acres | NA | 940,926 | 756,857 | 756,857 | 654,896 |
| South Afirca | Acres | NA | 8,986,446 | 4,774,825 | 2,771,695 | 2,771,695 |
| Romania | Acres | NA | 1,073,693 | 1,073,693 | 0 | 0 |
| Switzerland | Acres | NA | 1,850,000 | 0 | 0 | 0 |
| Germany | Acres | NA | 1,050,807 | 0 | 0 | 0 |
| Albania | Acres | NA | 855,123 | 0 | 0 | 0 |
| Gabon | Acres | NA | 2,409,276 | 2,409,276 | 2,409,276 | 2,409,276 |
| Total Net Undeveloped Acreage | Acres | NA | 13,379,851 | 7,607,653 | 5,428,476 | 5,155,649 |
| Total Net Undeveloped acreage as % of Total Gross Undeveloped Acreage | % | NA | 65 | 61 | 59 | 61 |

**Source: GlobalData**

**Figure 13: Forest Oil Corporation, Distribution of Capital Expenditure by Category, 2003-07**




**Source: GlobalData**

## 3.3 Acquisition and Disposal

**FST has identified $800 million to $1,000 million of potential assets to divest**

Forest Oil Corporation (FST) has been actively acquiring oil and gas properties across the US. The company is selective in acquisitions of oil or gas properties or exploration projects and primarily acquires properties which are located in its current core areas of operation. FST also believes in assets rationalization, to continue its focus on core assets. Disposal of non-core assets provides financial flexibility to the company and allows it to utilize the capital raised from sale to finance the acquisition, exploration and development activities. FST has identified $800 million to $1,000 million of potential assets to divest.

During 2003-07, FST invested $3.7 billion on acquisition activities, of which $3.1 billion was invested on proved properties acquisition and $0.6 billion was invested on unproved property acquisition. Over the same period, FST added 1,492.5 Bcfe proved reserves at $12.2/boe proved acquisition cost. Over the last five years, FST replaced 195% of total production through proved properties acquisitions.

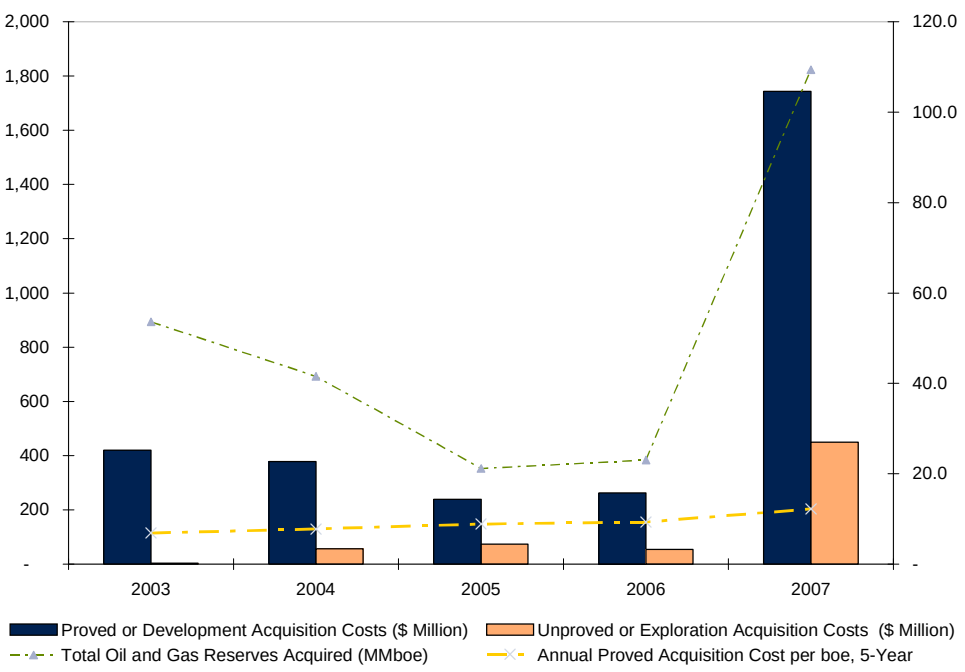
**Over the last five years, FST replaced 195% of total production through proved properties acquisitions**

**Table 17: Forest Oil Corporation, Deal Multiples**

| Acquisition | Purchase Price ($ Million) | Initial Production (Mmcfe/d) | Implied Value ($ per Mcfe/d) | Est Proved Reserves (Bcfe) | Implied Value ($ per Mcfe) | Net Acreage (000's) | Undeveloped Acreage (000's) |
|---|---|---|---|---|---|---|---|
| Unocal | 224 | 66 | 3,393.9 | 138 | 1.6 | 252 | |
| New Permian | 113 | 25 | 4,520.0 | 109 | 1.0 | 32 | 5 |
| Wiser Oil | 330 | 64 | 5,156.3 | 191 | 1.7 | 388 | 288 |
| Buffalo Wallow | 235 | 25 | 9,400.0 | 120 | 2.0 | 33 | 11 |
| Cotton Valley | 255 | 13 | 19,615.4 | 110 | 2.3 | 26 | 14 |
| Others | 146 | 29 | 5,034.5 | 129 | 1.1 | 162 | 101 |
| Houston Exploration | 1577 | 204 | 7,730.4 | 655 | 2.4 | 709 | 569 |

**Source: Company Presentation/GlobalData**

**Figure 14: Forest Oil Corporation, Acquisition Deals Metrics, 2003-07**




**Source: GlobalData**

## 3.4 Share Performance

Since listing, Forest Oil Corporation's share price has risen by over 174% from $18.1/share in November 1997 to $49.6/share in September 2008 and the company's current market capitalization is around $4.5 billion. Based on the near term development, exploration and appraisal programme, we believe that the stock price has further potential to rise.

**Since listing, Forest Oil Corporation's share price has risen by over 174% from $18.1/share in November 1997 to $49.6/share in September 2008**

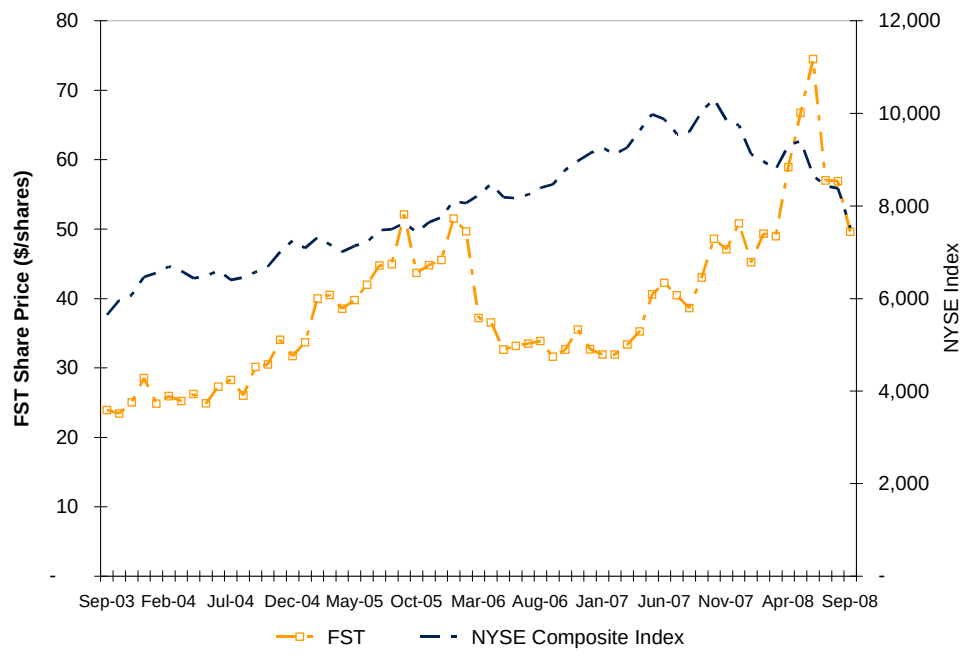
The Stock hit its 52 week high of $83.1 per share on 2nd July 2008 and currently the stock is trading near its 52 week low of $40.1 per share.

**Catalyst for next share price movement includes:**

- News from exploration, development drilling and production from Haynesville Shale, Utica Shale, Greater Buffalo Area, Canada Deep Basin, South Texas and East Texas/N.Louisiana.
- Any farm-in agreement, merger, and acquisition and divestment deals from the company side.

**The Stock hit its 52 week high of $83.1 per share on 2nd July 2008 and currently the stock is trading near its 52 week low of $40.1 per share**

**Figure 15: Forest Oil Corporation, Share Performance, September 2003-September 2008**




**Source: GlobalData**

## 3.5 Key Management

**H Craig Clark (Chief Executive Officer)**

Mr. Clark has been the President, the Chief Executive Officer and the Director of Forest Oil since 2003. He joined the company in 2001, and served as its President and Chief Operating Officer until July 2003. Previously, he worked with Apache Corporation from 1989 to 2001. He was the Executive Vice President, U.S. Operations at Apache Corporation and the Chairman and the Chief Executive Officer of ProEnergy, an affiliate of Apache Corporation.

**Forrest E Hoglund (Chairman)**

Mr. Hoglund has been the Non-executive Chairman of Forest Oil since 2003. He joined the company's Board of Directors in 2000. He has served as the Chairman and the Chief Executive Officer of SeaOne Maritime Corporation and the Chairman and the Chief Executive Officer of Arctic Resources Company, Ltd. He has also been the Chairman of the Board of EOG Resources, Inc. during 1987-1999 and the President of EOG Resources, Inc. during 1990-1996.

**David H Keyte (Chief Financial Officer, Executive Vice President)**

Mr. Keyte has been the Executive Vice President and the Chief Financial Officer of Forest Oil since 1997. He joined the company in 1987 as the Manager for Tax and became the Corporate Controller in 1988. He was the Vice President and the Chief Accounting Officer of Forest Oil in 1993. Prior to joining the company, he was a Principal in the Tax Division of Arthur Young & Co.

**Cecil N Colwell (Senior Vice President)**

Mr. Colwell is the Senior Vice President, Worldwide Drilling of Forest Oil. During 2004, he served as the Vice President, Worldwide Drilling of the company. He has also been the Vice President and the Drilling Manager, Gulf Coast of the company. He joined the company in 1988, as an Engineer in drilling and completion. His responsibilities include worldwide drilling operations of the company. During 1975-1980, he served at Placid Oil and in 1974, he served at Amoco in Texas. He started his career with Texaco in 1972.

**J C Ridens (Chief Operations Officer, Executive Vice President)**

Mr. Ridens has been the Executive Vice President and the Chief Operating Officer of Forest Oil. He has 25 years of drilling, production and reservoir experience. Previously, he has held many engineering and managerial positions in the industry.

**Rick Hatcher (Vice President)**

Mr. Hatcher has been the Vice President and the Chief Technology Officer of Forest Oil since 2001. He joined the company in 1988 as a Lead Programmer Analyst. In 1997, he worked for Coors Brewing Company as the Manager of SAP Projects and Support. He rejoined Forest Oil in 2000 as the Chief Technology Officer. He has also worked for Hamilton Brothers Oil Company and ANR Freight Systems.

**Michael N Kennedy (Managing Director)**

Mr. Kennedy has been the Managing Director, Capital Markets and the Treasurer of Forest Oil since 2005. He joined the company in February 2001 as the Senior Financial Analyst and most recently served as the Manager, Investor Relations. Prior to joining the company, he worked for Arthur Andersen L.L.P. as a Senior Accountant in the audit department.

**Table 18: Forest Oil Corporation, Key Employees, 2007**

| Name | Job Title | Board Level | Since | Age |
|---|---|---|---|---|
| H Craig Clark | Chief Executive Officer | Executive Board | 2003 | 51 |
| Forrest E Hoglund | Chairman | Non Executive Board | 2003 | 74 |
| William L Britton | Director | Non Executive Board | 1996 | 73 |
| Lorren K Carroll | Director | Non Executive Board | 2006 | 64 |
| Dod A Fraser | Director | Non Executive Board | 2000 | 57 |
| James H Lee | Director | Non Executive Board | 1991 | 59 |
| James D Lightner | Director | Non Executive Board | 2004 | 55 |
| Patrick R McDonald | Director | Non Executive Board | 2004 | 50 |
| David H Keyte | Chief Financial Officer | Senior Management | 1997 | 50 |
| Cecil N Colwell | Senior Vice President Worldwide Drilling | Senior Management | 2004 | 57 |
| J C Ridens | Chief Operations Officer | Senior Management | 2007 | 52 |
| Leonard C Gurule | Senior Vice President Alaska | Senior Management | 2003 | 51 |
| James R (Jim) Good | President Canadian Forest Oil | Senior Management | 2002 | |
| Robert B (Blaine) Wofford | Vice President Oil and Gas Marketing | Senior Management | 2004 | |
| Timothy F Savoy | Vice President Operations Support | Senior Management | 2004 | |
| Rick Hatcher | Chief Technology OfficerVice President | Senior Management | 2001 | |
| Paul J Dusha | Vice President Human Resources | Senior Management | 2005 | |
| Cyrus D (Skip) Marter IV | General Counsel | Senior Management | 2007 | 44 |
| Victor A Wind | Corporate Controller | Senior Management | 2005 | 34 |
| Michael N Kennedy | Managing Director | Senior Management | 2005 | |
| Mark E. Bush | Vice President Eastern Region | Senior Management | 1997 | 48 |
| Stephen T. Harpham | Vice President Western Region | Senior Management | 2001 | 46 |
| Glen J. Mizenko | Senior Vice President Business Development and Engineering | Senior Management | 2001 | 45 |
| Ronald C. Nutt | Vice President Southern Region | Senior Management | 2006 | 50 |

# 4 Operations Summary

**FST's Business units include: Western, Eastern, Southern, Canada, and International**

Forest Oil Corporation (FST) has divided its exploration and production activities in three geographical segments and five business units. The geographical segments include; the US, Canada and International. Internationally, the company has operations in Italy and South Africa. FST's Business units include: Western, Eastern, Southern, Canada, and International.

## *4.1 The United States*

### 4.1.1 Overview

Forest Oil Corporation's Business units include; Western, Eastern and Southern.

#### *4.1.1.1 Western*

FST's Western business unit's operations are located in the Texas Panhandle, West Texas, New Mexico, North Dakota, western Oklahoma, Colorado, Utah, and Wyoming. Buffalo Wallow area located in Hemphill and Wheeler Counties in the Texas Panhandle is one of the major assets of the company in this business unit. Permian Oil, Greater Vermejo/Haley and Uinta Basin are some of the major assets in Western Business Unit.

#### *4.1.1.2 Eastern*

FST's Eastern business unit's (EBU) operations are located in East Texas, Arkansas, and Louisiana. Cotton Valley trend in East Texas is the major asset of the EBU. Arkoma Basin, Barnett Shale and Onshore Louisiana are some of the other important assets in this EBU.

#### *4.1.1.3 Southern*

FST's Southern business unit's (SBU) operations are located in South Texas. South Texas Lobo, South Texas Vicksburg and Katy are some of the important assets of the company.

### 4.1.2 Production and Reserves

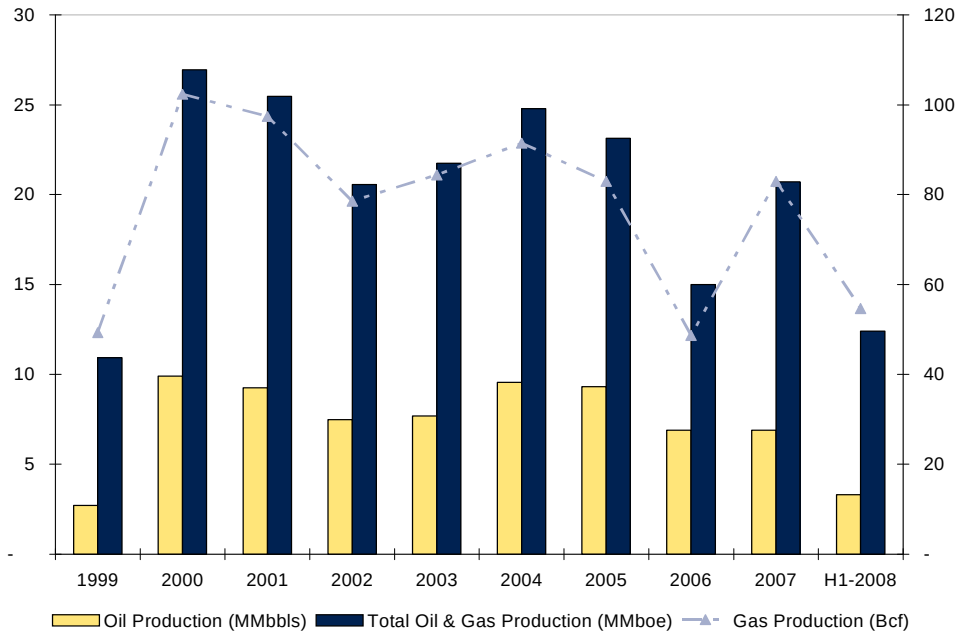
**For the first half of 2008 (H1, 2008) total oil and gas production increased significantly by 60.2% from 46.5 Bcfe in H1, 2007 to 74.5 Bcfe in H1, 2008**

For the first half of 2008 (H1, 2008) total oil and gas production increased significantly by 60.2% from 46.5 Bcfe in H1, 2007 to 74.5 Bcfe in H1, 2008. Crude oil production decreased slightly by 2.8% from 4.3 million barrels in H1, 2007 to 3.3 million barrels in H1, 2008. Meanwhile, total natural gas production rose significantly by 109.6% from 26.1 Bcf in H1, 2007 to 54.6 Bcf in H1, 2008. Natural gas accounted for around 73.4% of the total production. The increase in production is primarily attributable to Houston Exploration acquisition in June 2007 and the Ark-La-Tex acquisition in May 2008.

On a year on year basis, after accounting for properties acquired and sold in 2007, production went up by 38.1% from 90.0 Bcfe in 2006 to 124.3 Bcfe in 2007.

**In the US, FST replaced 723% of its 2007 production, increased proved reserves by 48.0% to 1,810.81 Bcfe and increased reserve life Index to 14.6 years**

**Figure 16: Forest Oil Corporation, The US, Oil and Gas Production, 1999-H1-2008**

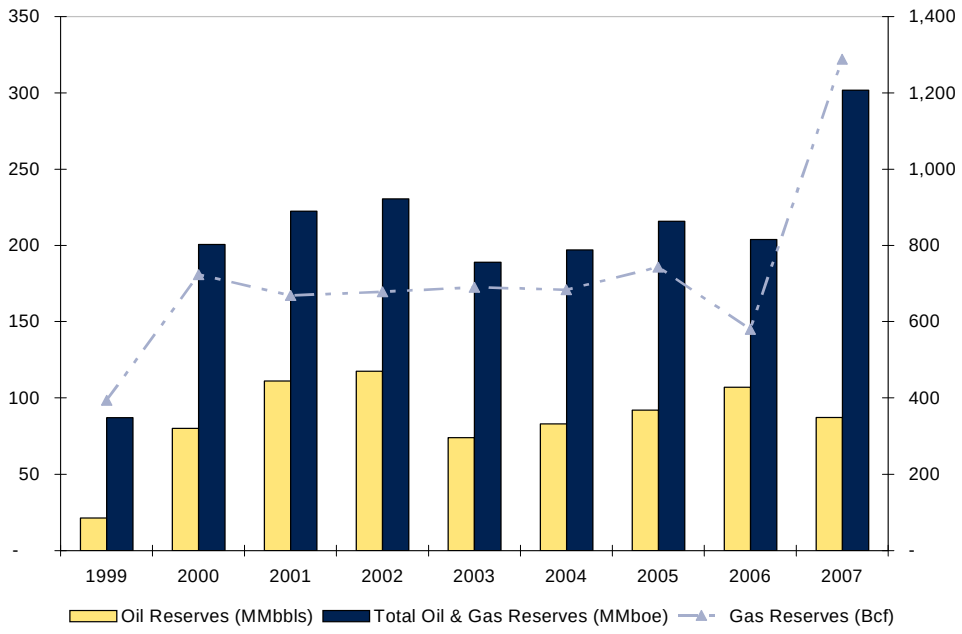



**Source: GlobalData**

FST replaced 723% of its 2007 production, increased proved reserves by 48.0% to 1,810.81 Bcfe and increased reserve life Index to 14.6 years from 13.6 years in 2006. Around 73.3% of proved reserves comprised of natural gas and 70.2% were proved developed. Based on current spacing, the company has around 8.5 Tcf resource potential in the US. Around 4.9 Tcf of resource potential is located in Haynesville Shale leasehold.

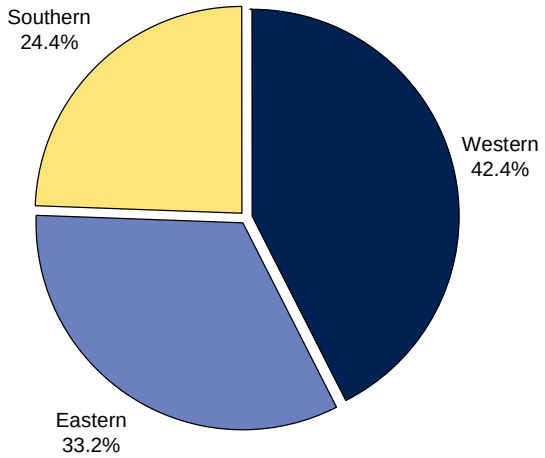
**Based on current spacing, the company has around 8.5 Tcf resource potential in the US**

**Figure 17: Forest Oil Corporation, Oil and Gas Reserves, In US, 1999-2007**



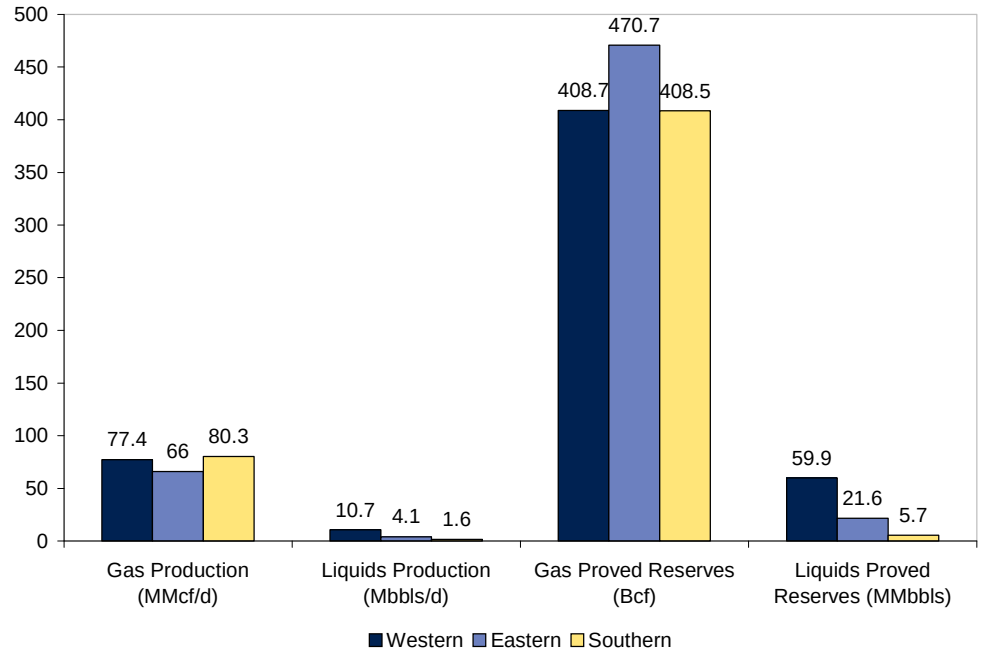

**Source: GlobalData**

**Figure 18: Forest Oil Corporation, The US, Proved Reserves By Business Unit, 2007**




**Source: GlobalData**

**Figure 19: Forest Oil Corporation, The US, Reserves and Production Data, By Business Unit, 2007**




Source: GlobalData

### 4.1.3 Exploration and Development

#### *4.1.3.1 Western*

**Overall in 2008, FST has a drilling programme of around 250 wells in Western area**

During the third quarter of 2008, FST plans to divest non-core assets from the Western Business Unit. In 2007, FST drilled 63 gross wells in the Buffalo Wallow area and plans to drill over 70 gross wells in 2008. As of December 31, 2007, FST had identified approximately 700 non-proved potential locations in the Buffalo Wallow area, some of which have been approved for 20 acre down-spacing. In 2007, the company plans to invest $180m in the Buffalo Wallow area out of capital expenditure budget of approximately $300m for Western Business Unit.

FST added the Rocky Mountain leasehold positions in 2007 including the Niobrara area in eastern Colorado and the Uinta Basin in western Utah. In 2008, the company expects to drill approximately 25 wells in the Niobrara field.

Overall in 2008, FST has a drilling programme of around 250 wells in Western area.

#### *4.1.3.2 Eastern*

With Huston Exploration acquisition, FST has increased its acreage position in Cotton Valley trend in East Texas to over 60,000 net acres. In 2008, the company expects to drill over 50 gross wells including 12 horizontal wells on undeveloped acreage in blocks in Cotton Valley trend. In Arkoma Basin, the company plans to drill over 100 gross wells in

the Arkoma Basin in 2008. In East Texas and the Arkoma Basin properties, the company plans to spend around $195m out of the $285m budget for Eastern Business Unit.

**Overall in 2008, FST has a drilling programme of around 178 wells in Eastern area.**

Overall in 2008, FST has a drilling programme of around 178 wells in Eastern area.

*4.1.3.3 Southern*

FST has identified a significant number of drilling locations in South Texas, and plans to drill approximately 59 wells in the area in 2008. In 2008, the company plans to continue extensional and infill drilling and recompletion program in the Katy field. In 2008, the company plans to invest $125m in the Rincon, Charco, Katy and McAllen Ranch fields out of capital expenditure budget of approximately $215m for the Southern Business Unit.

**Overall in 2008, FST has drilling programme of around 59 wells in Southern area**

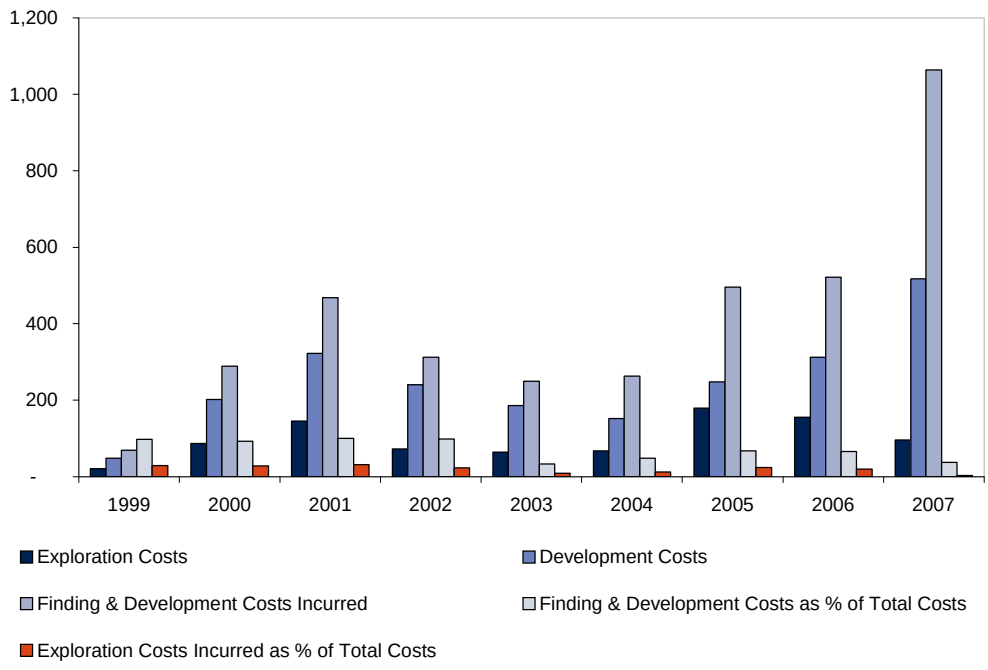
Overall in 2008, FST has drilling programme of around 59 wells in Southern area.

**Table 19: Forest Oil Corporation, The US, Acreage, Well Data and Metrics, 2003-2007**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Total Gross Undeveloped Acreage | 2,106,396.0 | 2,156,811.0 | 2,218,451.0 | 1,498,204.0 | 1,484,688.0 |
| Total Net Undeveloped Acreage | 1,630,372.0 | 1,596,834.0 | 1,635,768.0 | 1,240,709.0 | 962,803.0 |
| Gross Producible Oil Wells | 2,716.0 | 4,842.0 | 4,817.0 | 3,159.0 | 2,624.0 |
| Gross Producible Gas Wells | 1,011.0 | 3,895.0 | 4,735.0 | 3,543.0 | 5,990.0 |
| Gross Producible Oil & Gas Wells | 3,727.0 | 8,737.0 | 9,552.0 | 6,702.0 | 8,614.0 |
| Net Producible Oil Wells | 1,267.0 | 2,113.0 | 2,136.0 | 2,075.0 | 2,043.0 |
| Net Producible Gas Wells | 390.0 | 1,019.0 | 1,260.0 | 781.0 | 2,736.0 |
| Net Producible Oil & Gas Wells | 1,657.0 | 3,132.0 | 3,396.0 | 2,856.0 | 4,779.0 |
| Net Oil & Gas Wells as % of Gross Oil & Gas Wells | 44.5 | 35.8 | 35.6 | 42.6 | 55.5 |
| Developed Oil Reserves per Well (Mbbls) | 42.6 | 29.1 | 31.3 | 35.3 | 30.2 |
| Developed Gas Reserves per Well (MMcf) | 1,329.0 | 522.9 | 416.2 | 522.4 | 329.1 |
| **Developed Oil & Gas Reserves per Well (Mboe)** | 84.7 | 48.0 | 45.4 | 49.5 | 44.3 |

**Source: GlobalData**

**Figure 20: Forest Oil Corporation, The US, Exploration and Development Costs and Metrics, 1999-2007**




**Source: GlobalData**

### 4.1.4 Outlook

In the US, FST's main focus will be expanding, developing and tapping its core assets (Buffalo Wallow, Wild River, Arkoma Basin, East Texas and South Texas) and shale assets potential. In 2008, the company plans to drill around 350 wells in its core areas. In shale, major exploration and development activities will be on tapping Haynesville shale resource potential.

## 4.2 Canada

### 4.2.1 Overview

Forest Oil Corporation's (FST) Canadian exploration and operations are primarily located in central Alberta. Deep Basin in central Alberta is company's primary area of focus. Wild River, Evi/Loon, Ansell, and Foothills are some of the major areas in Alberta.

**Wild River, Evi/Loon, Ansell, and Foothills are some of the major areas in Alberta**

Apart from exploration and production assets, the company also owns facilities and pipeline infrastructure. Total net acreage in Canada is about 852,704.00 acres of which 44% is developed.

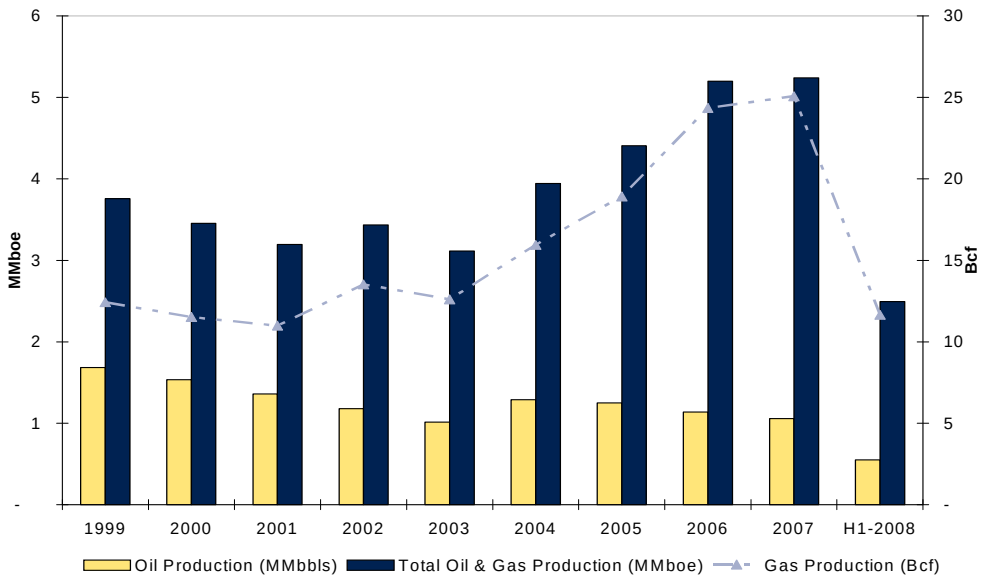
**Figure 21: Forest Oil Corporation, Canada Operations Map, 2008**


Source: GlobalData

### 4.2.2 Production and Reserves

For the first half of 2008 2008 (H1, 2008) total production went down by 5.5% from 15,781 MMcf in H1, 2007 to 14,965 MMcf in H1, 2008. Crude oil production went down by 3.8% from 412 Mbbls in H1, 2007 to 397 Mbbls in H1,2008, Meanwhile, total natural gas production also went down by 7.8% from 12,565 MMcf in H1, 2007 to 11,653 MMcf in H1, 2008. On a year on year basis, production went up slightly by 1% 5.20 MMboe in 2007 to 5.24 MMboe in 2008. Production was increased through development and exploratory drilling in the Wild River, Ansell and Foothills areas in central Alberta.

**Figure 22: Forest Oil Corporation, Canadian, Oil and Gas Production, 1999-H1, 2008**

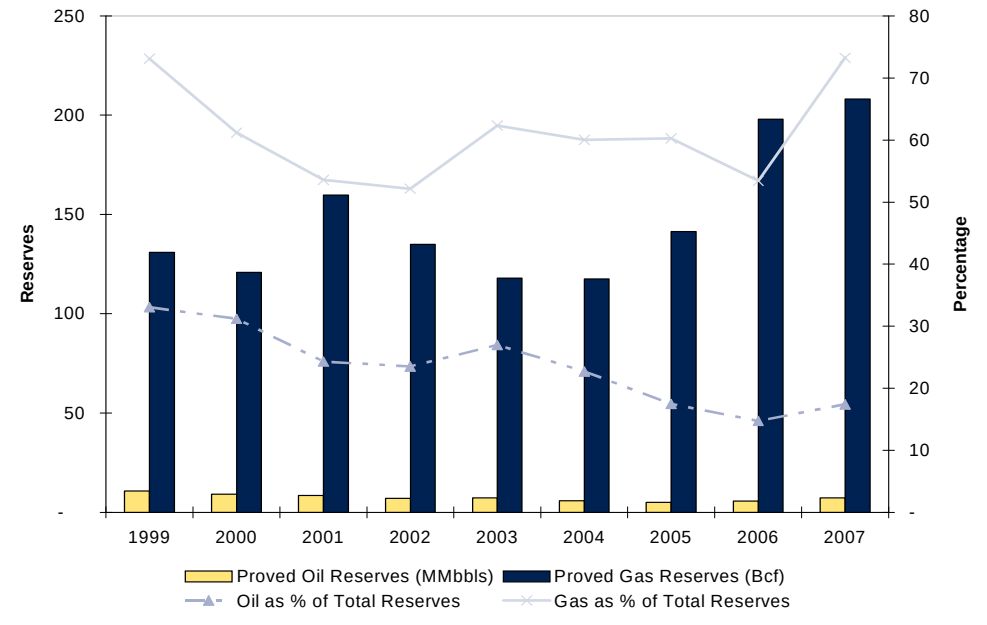



**Source: GlobalData**

FST had 42.0 MMbbls of proved reserves at the end of 2007. During 2007, the company added 11.1 MMbbls of proved reserves through extension and discoveries. The company has significant resource potential in Canada. The company has around 863 Bcfe net unrisked potential, of which 43.9% is located in Canada Deep Basin and Foothills and 56.1% in Canada Plains.

**In Canada, FST had 42.0 MMbbls of proved reserves at the end of 2007**

**Figure 23: Forest Oil Corporation, Canadian, Oil and Gas Reserves, 1999-2007**




**Source: GlobalData**

### 4.2.3 Exploration and Development

In 2007, the company expanded its acreage position in the Deep Basin to approximately 73,000 gross acres. In 2008, the company plans to drill around 35 gross wells in the Deep Basin. The company has around 155 potential locations in Canada. The company plans to invest approximately $140m in Canada, of which $80m is expected to be invested in Deep Basin.

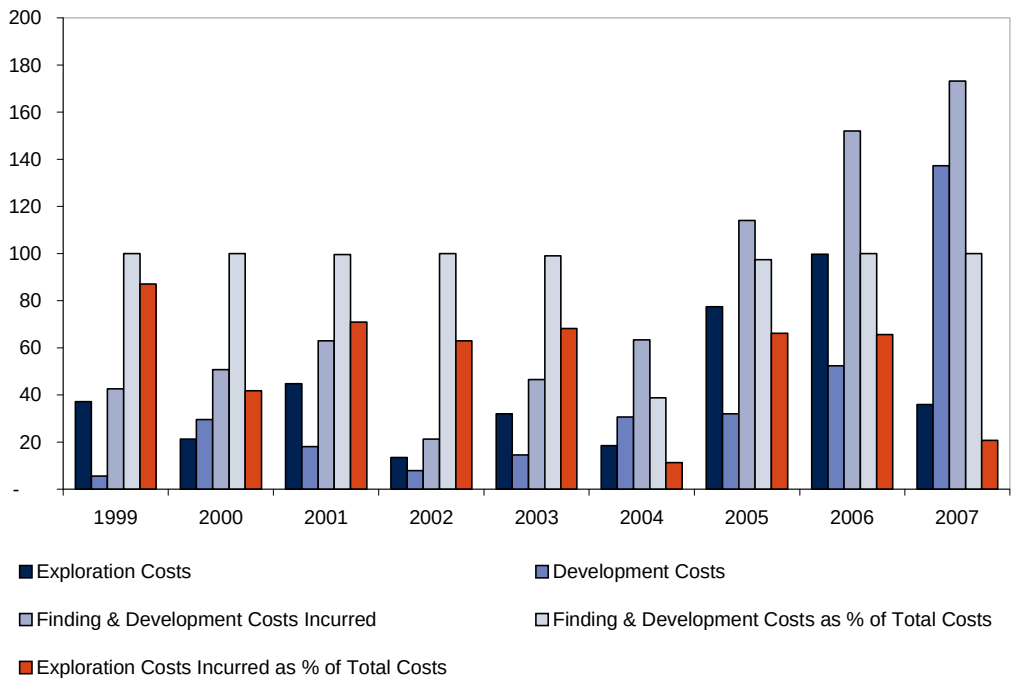
With Wild River field anticipated to reach full development, the company plans to direct further capital at Sundance/Ansell, a multi-zone, Cretaceous play similar to Wild River in 2008. The company also plans to focus on further development of additional reservoirs in the Wild River field.

**Table 20: Forest Oil Corporation, Canada, Acreage, Well Data and Metrics, 2003-2007**

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Total Gross Undeveloped Acreage | 1,419,937.0 | 1,378,226.0 | 1,118,462.0 | 1,082,504.0 | 852,704.0 |
| Total Net Undeveloped Acreage | 794,722.0 | 826,340.0 | 598,481.0 | 581,746.0 | 375,398.0 |
| Gross Producible Oil Wells | 346.0 | 316.0 | 323.0 | 329.0 | 341.0 |
| Gross Producible Gas Wells | 231.0 | 471.0 | 515.0 | 572.0 | 626.0 |
| Gross Producible Oil & Gas Wells | 577.0 | 787.0 | 838.0 | 901.0 | 967.0 |
| Net Producible Oil Wells | 216.0 | 218.0 | 225.0 | 229.0 | 241.0 |
| Net Producible Gas Wells | 116.0 | 284.0 | 308.0 | 336.0 | 365.0 |
| Net Producible Oil & Gas Wells | 332.0 | 502.0 | 533.0 | 565.0 | 606.0 |
| Net Oil & Gas Wells as % of Gross Oil & Gas Wells | 57.5 | 63.8 | 63.6 | 62.7 | 62.7 |
| Developed Oil Reserves per Well (Mbbls) | 32.0 | 25.5 | 21.2 | 22.0 | 20.5 |
| Developed Gas Reserves per Well (MMcf) | 791.2 | 332.1 | 373.2 | 470.8 | 447.8 |
| Developed Oil & Gas Reserves per Well (Mboe) | 66.9 | 42.4 | 44.9 | 55.6 | 53.1 |

**Source: GlobalData**

**Figure 24: Forest Oil Corporation, Canada, Exploration and Development Costs and Metrics, 1999-2007**




**Source: GlobalData**

### 4.2.4 Outlook

In Canada, FST's recent success in Utica Shale bodes well for its long-term organic growth prospects. In 2008 and 2009, FST main focus in Canada will be on unveiling potential of Utica Shale.

## 4.3 International

### 4.3.1 Overview

**FST international operations include; Italy, Gabon and South Africa**

Forest Oil Corporation's (FST) international operations include; Italy, Gabon and South Africa. In Italy, FST's holds a 90% working interest in approximately 8,000 net acres in the Monte Pallano Area in onshore central Italy. Intergie Corporation holds the remaining 10% working interest in Monte Pallano. In addition to this acreage, FST has 282,000 net acres in Italy located primarily in the Po Valley. The company has 100% working interest in this asset.

In 1998, FST two concessions in South Africa from Anschutz Overseas South Africa (Pty) Limited. FST with 53.2% equity stake is the operator of these concession blocks. Other partners in the concession include; Petroleum Oil and Gas Corporation of South Africa (Pty) Limited (''PetroSA'') with 24.0% equity stake and Anschutz Overseas South Africa (Pty) Limited (''Anschutz Overseas'') with 22.8% stake.

**Figure 25: Forest Oil Corporation, International Operations Map, 2008**


**Source: Company Presentation**

### 4.3.2 Production and Reserves

In 2007, the company had established proved reserves of 56 Bcfe in Italy after drilling two successful wells at Monte Pallano. Development activities are currently going on at Monte Pallano and the company expects production to start from first half of 2009. The wells were tested at a combined rate of 22 MMcfe/d. In Italy, around 2.7% of the total proved reserves of the company are located in Italy and around 50% of the total reserves in Italy is proved developed.

In Gabon and South Africa, the company has not booked any reserves till date.

### 4.3.3 Exploration and Development

In Italy, the company plans to develop pipeline and facilities at the Monte Pallano discovery in 2008. The company also plans for exploratory drilling in the Po Valley, Northern Italy in 2008.

In South Africa, Block 2A (Ibhubesi gas field) conceptual development plan has been completed. Block partners have filed a production right application to the Petroleum Agcency of South Africa. FST also continued efforts toward securing gas contracts for the Ibhubesi field. FST and equity partners are currently trying to convert old-order prospecting rights for Block 2C to new-order rights. One deep-water exploration well will be drilled once the application has been approved.

# 5 Financial Outlook

Driven by production from core assets and recent assets acquisition, we expect FST's production to reach approximately 187.5 Bcfe in 2008, which is an increase of around 20% from 155.7 Bcfe in 2007.

**We expect FST's production to reach approximately 187.5 Bcfe in 2008, which is an increase of around 20% from 155.7 Bcfe in 2007**

Based on strong crude oil and natural gas prices and an expected increase in production, we expect FST's revenues to increase by around 64% from $1,083.9m in 2007 to an expected $1,781.2m in 2008. We expect FST to generate earnings from operations of approximately $806.9m in 2008, assuming natural gas price of $9.5/Mcfe in 2008. Based on our current commodity price outlook, FST should generate cash flow from operations of $1,382.0m in 2008 and $1,447.6m in 2009. Forest has traditionally reinvested practically all of its cash flow. That implies that the success of that reinvestment is what will really drive future valuation.

**FST's strong balance sheet should provide it the flexibility to pursue growth opportunities**

FST's strong balance sheet should provide it the flexibility to pursue growth opportunities. The company spent approximately $1,595.3m on capital programs last year, up from $ 916.4m in 2006. The majority of investment was towards Houston Exploration acquisition. In 2008, the company plans to spend around $1.15 billion and $1.25 billion on exploration and development activities. We estimate FST's debt to cap to 37%. This, coupled with the strong cash flows, should enable the company to fund its capital program and to pursue bolt-on acquisitions.

## 5.1 Income Statement (2005-2012)

**Table 21: Forest Oil Corporation, Income Statement ($ Million), 2005-2012**

| Fiscal Year (In millions, except per share data) | December, 2005 | December, 2006 | December, 2007 | December, 2008 | December, 2009 | December, 2010 | December, 2011 | December, 2012 |
|---|---|---|---|---|---|---|---|---|
| Net sales | $1,072.0 | $820.0 | $1,083.9 | $1,781.2 | $1,977.7 | $2,198.4 | $2,273.0 | $2,586.0 |
| Cost of Goods Sold | 261.9 | 215.8 | 242.9 | 298.4 | 356.7 | 413.6 | 479.8 | 556.8 |
| Depreciation and amortization (D&A) | 368.7 | 266.9 | 390.3 | 597.5 | 919.4 | 1,216.2 | 1,490.6 | 1,643.1 |
| **Gross margin** | **441.5** | **337.3** | **450.6** | **885.2** | **701.6** | **568.6** | **302.6** | **386.1** |
| SG&A expenses | 43.7 | 48.3 | 63.8 | 78.3 | 93.6 | 108.5 | 125.9 | 146.1 |
| Other Operating Expenses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total operating expenses | 43.7 | 48.3 | 63.8 | 78.3 | 93.6 | 108.5 | 125.9 | 146.1 |
| **Operating profit** | **$397.8** | **$289.0** | **$386.9** | **$806.9** | **$608.0** | **$460.1** | **$176.7** | **$240.0** |
| Other Income/(Expense) - Net | (91.5) | 39.8 | (42.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Earnings Bef Interest & Taxes (EBIT)** | **$306.3** | **$328.8** | **$344.9** | **$806.9** | **$608.0** | **$460.1** | **$176.7** | **$240.0** |
| Interest expense, net | (61.4) | (71.8) | (113.2) | 129.9 | 127.4 | 127.4 | 104.7 | 104.7 |
| Pretax Income | 244.9 | 257.0 | 231.7 | 936.8 | 735.4 | 587.5 | 281.3 | 344.7 |
| Income Taxes | (93.4) | (90.9) | (62.4) | (326.5) | (256.3) | (204.8) | (98.1) | (120.1) |
| **Net earnings** | **151.6** | **166.1** | **169.3** | **610.3** | **479.1** | **382.7** | **183.3** | **224.5** |
| Basic EPS | $2.47 | $2.67 | $2.22 | $6.80 | $5.34 | $4.26 | $2.04 | $2.50 |

**Source: GlobalData**

## 5.2 Balance Sheet (2005-2012)

**Table 22: Forest Oil Corporation, Balance Sheet ($ Million), 2005-2012**

| Fiscal Year (In millions) | December, 2005 | December, 2006 | December, 2007 | December, 2008 | December, 2009 | December, 2010 | December, 2011 | December, 2012 |
|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | |
| Cash and cash equivalents | 7.2 | 33.2 | 9.7 | $35.6 | $39.6 | $44.0 | $45.5 | $51.7 |
| Accounts receivable, net | 178.1 | 125.4 | 201.6 | 331.3 | 367.9 | 408.9 | 422.8 | 481.0 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred income taxes | 77.3 | 0.0 | 23.9 | 23.9 | 23.9 | 23.9 | 23.9 | 23.9 |
| Other current assets | 53.2 | 102.4 | 126.2 | 126.2 | 126.2 | 126.2 | 126.2 | 126.2 |
| **Total Current Assets** | **$315.9** | **$261.0** | **$361.4** | **$517.0** | **$557.5** | **$603.0** | **$618.3** | **$682.8** |
| Prop. and Equipment, net of accumulated D&A | 3,200.0 | 2,789.9 | 5,025.8 | 6,327.4 | 7,343.0 | 8,096.7 | 8,616.5 | 9,030.8 |
| Other non-current assets | 129.6 | 138.1 | 308.4 | 308.4 | 308.4 | 308.4 | 308.4 | 308.4 |
| **Total Assets** | **$3,645.5** | **$3,189.1** | **$5,695.5** | **$7,152.8** | **$8,208.9** | **$9,008.0** | **$9,543.2** | **$10,021.9** |
| Liabilities | | | | | | | | |
| Accounts payable | 312.1 | 224.9 | 361.1 | $593.4 | $658.9 | $732.4 | $757.2 | $861.5 |
| Other Current Liabilities | 210.8 | 36.5 | 111.3 | 182.9 | 203.1 | 225.7 | 233.4 | 265.5 |
| Short Term Debt | 0.0 | 0.0 | 0.0 | 314.4 | 805.7 | 1,126.0 | 1,738.9 | 1,856.7 |
| Current portion of long-term debt | 0.0 | 2.5 | 266.0 | 0.0 | 0.0 | 293.5 | 0.0 | 0.0 |
| **Total Current Liabilities** | **$522.9** | **$263.9** | **$738.4** | **$1,090.7** | **$1,667.7** | **$2,377.6** | **$2,729.5** | **$2,983.7** |
| Long-term debt | 884.8 | 1,204.7 | 1,503.0 | 1,997.6 | 1,997.6 | 1,704.1 | 1,704.1 | 1,704.1 |
| Other long-term liabilities | 553.3 | 286.4 | 1,042.3 | 1,042.3 | 1,042.3 | 1,042.3 | 1,042.3 | 1,042.3 |
| **Total Liabilities** | **$1,961.0** | **$1,755.1** | **$3,283.7** | **$4,130.6** | **$4,707.6** | **$5,124.0** | **$5,475.9** | **$5,730.2** |
| Shareholder's equity | | | | | | | | |
| Common Stock, par $0.01 | 6.5 | 6.3 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| Treasury stock | (50.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Guaranteed ESOP obligation | (26.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Additional Paid in Capital | 1,555.3 | 1,215.7 | 1,966.6 | 1,966.7 | 1,966.7 | 1,966.7 | 1,966.7 | 1,966.7 |
| Retained earnings | 217.3 | 137.8 | 306.1 | 1,304.4 | 916.3 | 1,395.4 | 1,778.1 | 1,961.4 |
| Accumulated Loss | (18.2) | 74.3 | 130.3 | 130.3 | 130.3 | 130.3 | 130.3 | 130.3 |
| Total Shareholders' Equity | $1,684.5 | $1,434.0 | $2,411.8 | $3,410.3 | $3,022.2 | $3,501.3 | $3,884.0 | $4,067.3 |
| **Total Liabilities and Shareholders' equity** | **$3,645.5** | **$3,189.1** | **$5,695.5** | **$7,354.9** | **$7,152.8** | **$8,208.9** | **$9,008.0** | **$9,543.2** |

**Source: GlobalData**

## 5.3 Cash Flow Statement (2005-2012)

**Table 23: Forest Oil Corporation, Cash Flow Statement ($ Million), 2005-2012**

| Fiscal Year | 2005 | 2006 | 2007 | 2008E | 2009E | 2010E | 2011E | 2012E |
|---|---|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | | | |
| Net earnings | $151.6 | $168.5 | $169.3 | $610.3 | $479.1 | $382.7 | $183.3 | $224.5 |
| Depreciation and Amortization | 368.7 | 266.9 | 390.3 | 597.5 | 919.4 | 1,216.2 | 1,490.6 | 1,643.1 |
| Deferred income taxes/other non-cash items | 133.3 | 40.2 | 182.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net cash from discontinued Operations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in WC providing/(requiring) cash | (25.0) | (53.1) | (33.7) | 174.2 | 49.1 | 55.1 | 18.6 | 78.2 |
| **Net cash from operating activities** | **628.6** | **422.5** | **708.2** | **1,382.0** | **1,447.6** | **1,654.0** | **1,692.5** | **1,945.8** |
| **Cash flows from investing activities** | | | | | | | | |
| Capex - Additions to PP&E | (690.7) | (916.4) | (1,595.3) | (1,899.2) | (1,935.0) | (1,969.9) | (2,010.4) | (2,057.4) |
| Others | (4.6) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from sale or disposal of assets | 24.0 | 6.5 | 502.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net cash used in investing activities** | **(671.2)** | **(909.9)** | **(1,093.2)** | **(1,899.2)** | **(1,935.0)** | **(1,969.9)** | **(2,010.4)** | **(2,057.4)** |
| **Cash flows from financing activities** | | | | | | | | |
| Additions to (reductions in) long-term debt | (200.6) | (33.3) | 497.9 | 358.6 | 228.6 | 0.0 | 0.0 | (293.5) |
| Proceeds from exercise of stock options | 22.9 | 43.4 | 6.8 | 12.8 | 0.1 | 0.0 | 0.0 | 0.0 |
| Others | (7.7) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Common Stock Offering | 117.1 | (14.7) | 9.1 | (11.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| (Reductions in) additions to short-term debt | 0.0 | 0.0 | 0.0 | 0.0 | 314.4 | 491.3 | 320.2 | 612.9 |
| **Net cash used in financing activities** | **(68.3)** | **(4.6)** | **513.8** | **359.6** | **543.1** | **491.3** | **320.2** | **319.4** |
| Net (decrease) increase in cash & equivalents | 43.7 | (48.0) | 25.9 | (23.5) | 25.9 | 3.9 | 4.4 | 1.5 |
| Cash & equivalents at beginning of year | 11.5 | 55.3 | 7.2 | 33.2 | 9.7 | 35.6 | 39.6 | 44.0 |
| **Cash and cash equivalents at end of year** | **55.3** | **7.2** | **33.2** | **9.7** | **35.6** | **39.6** | **44.0** | **45.5** |

**Source: GlobalData**

## 5.4 Key Ratios (2005-2012)

**Table 24: Forest Oil Corporation, Key Ratios, 2005-2012**

| Estimate and Financial Data | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| EPS ($) | 2.5 | 2.7 | 2.2 | 6.8 | 5.3 | 4.3 | 2.0 | 2.5 |
| P/E (x) | 18.5 | 12.2 | 22.9 | 7.3 | 9.3 | 11.6 | 24.3 | 19.8 |
| Net Profit Margin (%) | 14.1% | 20.3% | 15.6% | 34.3% | 24.2% | 17.4% | 8.1% | 8.7% |
| EBITDA Margin (%) | 71.5% | 67.8% | 71.7% | 78.9% | 77.2% | 76.2% | 73.4% | 72.8% |
| ROE (%) | 9.0% | 11.6% | 7.0% | 20.2% | 13.7% | 9.9% | 4.5% | 5.2% |
| EV/EBITDA (x) | 4.8 | 5.8 | 6.9 | 4.6 | 4.2 | 3.8 | 3.9 | 3.4 |
| Profitability | | | | | | | | |
| Gross Profit Margin (%) | 41.2% | 41.1% | 41.6% | 49.7% | 35.5% | 25.9% | 13.3% | 14.9% |
| EBITD Margin (%) | 71.5% | 67.8% | 71.7% | 78.9% | 77.2% | 76.2% | 73.4% | 72.8% |
| Operating Margin (%) | 37.1% | 35.2% | 35.7% | 45.3% | 30.7% | 20.9% | 7.8% | 9.3% |
| Pre-Tax Margin (%) | 22.8% | 31.3% | 21.4% | 52.6% | 37.2% | 26.7% | 12.4% | 13.3% |
| Net Margin (%) | 14.1% | 20.3% | 15.6% | 34.3% | 24.2% | 17.4% | 8.1% | 8.7% |
| Return on Invested Capital (%) | 9.7% | 13.6% | 8.6% | 30.9% | 24.2% | 19.4% | 9.3% | 11.4% |
| Return on Assets (%) | 4.2% | 5.2% | 3.0% | 8.5% | 5.8% | 4.2% | 1.9% | 2.2% |
| Return on Equity (%) | 9.0% | 11.6% | 7.0% | 20.2% | 13.7% | 9.9% | 4.5% | 5.2% |
| Return on Capital Employed (%) | 18.2% | 22.9% | 14.3% | 26.7% | 17.4% | 11.8% | 4.3% | 5.6% |
| Value | | | | | | | | |
| EV/Sales | 3.4 | 3.9 | 4.9 | 3.6 | 3.3 | 2.9 | 2.8 | 2.5 |
| EV/EBITDA | 4.8 | 5.8 | 6.9 | 4.6 | 4.2 | 3.8 | 3.9 | 3.4 |
| EV/EBIT | 12.0 | 9.7 | 15.5 | 8.0 | 10.6 | 14.0 | 36.5 | 26.8 |
| P/E Ratio | 18.5 | 12.2 | 22.9 | 7.3 | 9.3 | 11.6 | 24.3 | 19.8 |
| Price to Sales | 2.6 | 2.5 | 3.6 | 2.5 | 2.3 | 2.0 | 2.0 | 1.7 |
| Price to Cash Flow | 4.5 | 4.8 | 5.5 | 3.2 | 3.1 | 2.7 | 2.6 | 2.3 |
| Financial | | | | | | | | |
| Current Ratio | 0.6 | 1.0 | 0.5 | 0.5 | 0.3 | 0.3 | 0.2 | 0.2 |
| Long Term Debt to Equity | 34% | 46% | 38% | 40% | 36% | 30% | 30% | 28% |

**Source: GlobalData**

# 6 Valuation

We have applied two different methods to value the company, a sum-of parts analysis, and a comparative valuation. The valuation exercise yielded a range of equity value from $6,732.5m to $ 5,051.0m, translating into share price targets of $75.0-$56.3 per share.

**The valuation exercise yielded a range of equity value from $6,732.5m to $ 5,051.0m, translating into share price targets of $75.0-$56.3 per share**

**Table 25: Forest Oil Corporation, Summary of Target Price ($/share), 2008**

| Valuation Method | $/share |
|---|---|
| Sum of parts | 75.0 |
| Comparative Valuation | 56.3 |

**Source: GlobalData**

## 6.1 Sum-of-Parts Analysis

Our principle valuation tool is a sum-of-parts DCF. Our base case valuation is $75.0 per share, implying 33.9% upside from the current levels. The Net Asset Value is based on

**Our base case valuation is $75.0 per share, implying 33.9% upside from the current levels**

- Core Value/Commercial Value: It comprises of DCF valuation of the proved reserves minus net financial items.
- We estimate the realized price of crude oil at $115, $110, $105, $95, and $90 per Bbl for 2008, 2009, 2010, 2011 and 2012 respectively and $90.0 thereafter. We estimate the realized price of natural gas at $9.5, $9.0, $8.5, $8.0 and $8.0 per Mcf for 2008, 2009, 2010, 2011 and 2012 respectively and $8.0 thereafter.
- Risked Unproven Reserves Potential: This value is based on long term development portfolio. This value of visible appraisal and development opportunities in the portfolio. For resource upside, we use multiple ($/boe) from recent upstream oil and gas merger and acquisition for valuation. For development prospects, we have been conservative with a 20% likelihood of success in calculating the NAV.
- Production cashflow from fields discounted at 10%.

Based on the company's results and revised growth outlook, we estimate NAV of the company to be $75.0/shares. When excluding the valuation we assign to probable resource potential, FST is currently trading at a 17% discount to our $59.7/share proved NAV. Looking at the current share price, we believe that the company is currently undervalued by a significant amount.

The table 26 below shows FST's net asset value based of its assets. Our $75.0/share proved NAV comprises of 1) $81.18 per share for 429.9 MMboe (2.6 Tcfe) of proved reserves less 2) $22.1 per share of net debt. To this proved NAV we added additional $15.3 per share for the resource potential of the company.

**Table 26: Forest Oil Corporation, Sum-of Parts Valuation, 2008**

| Crude Oil | Reserve (MMbbls) | Natural Gas Reserves (Bcf) | Total Reserves (MMboe) | NPV ($ Million) | Asset Value Per Share ($/Share) |
|---|---|---|---|---|---|
| **Proved Reserves** | | | | | |
| United States | 87.2 | 1,747.9 | 378.5 | 6,470.8 | 72.1 |
| Canada | 7.3 | 208.2 | 42.0 | 666.5 | 7.4 |
| Italy | 0.0 | 56.3 | 9.4 | 206.5 | 2.3 |
| **Total Proved Reserves** | **94.5** | **2,012.4** | **429.9** | **7,343.8** | **81.8** |
| | | | | | |
| **Exploration Development Resource Potential** | | | | | |
| Greater Buffalo Wallow Area | 0.0 | 663.0 | 110.5 | 10.8 | 238.7 |
| Canada Deep Basin and Foothills | 0.0 | 175.0 | 29.2 | 10.8 | 63.0 |
| Canada Plains | 0.0 | 89.0 | 14.8 | 10.8 | 32.0 |
| Ark-La-Tex | 0.0 | 674.0 | 112.3 | 10.8 | 242.6 |
| South Texas | 0.0 | 411.0 | 68.5 | 10.8 | 148.0 |
| Barnett Shale | 0.0 | 195.0 | 32.5 | 10.8 | 70.2 |
| Permian Basin | 0.0 | 792.0 | 132.0 | 10.8 | 285.1 |
| Rockies | 0.0 | 822.0 | 137.0 | 10.8 | 295.9 |
| **Financial Items** | | | | | |
| (Net Debt)/Cash | | | | 1,986.8 | 22.1 |
| Total Proven Net Asset Value | | | | 5,357.0 | 59.7 |
| Risked Unproven Reserves Potential | | | | 1,375.6 | 15.3 |
| **Net Asset Value** | | | | **6,732.5** | **75.0** |

**Source: GlobalData**

For calculating Net Asset Value, we have valued 100% (chance of success) of the proved reserves and 20% potential resource upside. Using this assumption, we arrive at NAV value of $75.0 per share. We have also calculated sensitivity of NAV to difference chances of success to measure potential resource upside. The table 27 below highlights NAV sensitivity to difference chances of success.

**Table 27: Forest Oil Corporation, Net Asset Value Sensitivity, 2008**

| Chance of Success | 10% | 20% | 30% | 40% |
|---|---|---|---|---|
| NAV | 67.3 | 75.0 | 82.7 | 90.3 |

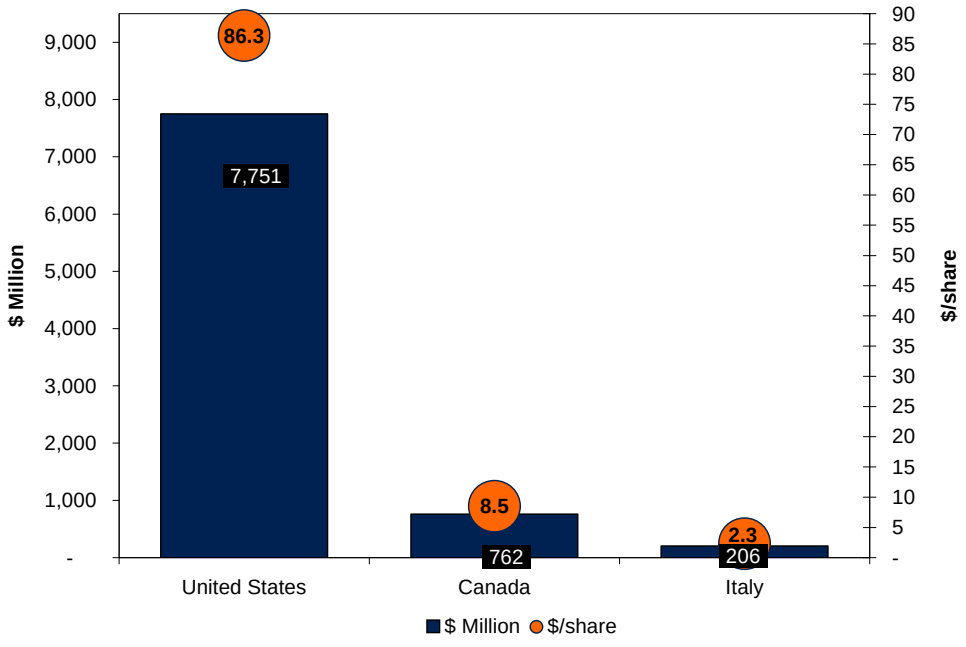
**Source: GlobalData**

**The NAV of the commercial reserves is $59.7/share, supporting almost 89% of the current share price**

**Core Value/Commercial Value:** The NAV of the commercial reserves is $59.7/share, supporting almost 89% of the current share price.

**Risked Unproven Reserves Potential Exploration Value:** NAV value is highly skewed towards risked unproven reserves potential value, which is $15.3 per share. The risked value is dominated by the company's stake in Permian Basin, Rockies, Greater Buffalo Wallow Area and Ark-La-Tex assets.

**Figure 26: Forest Oil Corporation, Valuation per share, By Assets, 2008**




**Source: GlobalData**

## 6.2 Comparative Valuation

The peer group for comparative valuation includes other independent oil and gas exploration and production companies with a similar mix of operations. The peer group comprises of Cabot Oil & Gas Corporation, Newfield Exploration Company, Quicksilver Resources, Inc, Cimarex Energy, Plains Exploration & Production Company, Pioneer Natural Resource Company, PetroHawk Energy Corp. Whiting Petroleum and Denbury Resources.

**Table 28: Forest Oil Corporation, Comparative Valuations, 2007**

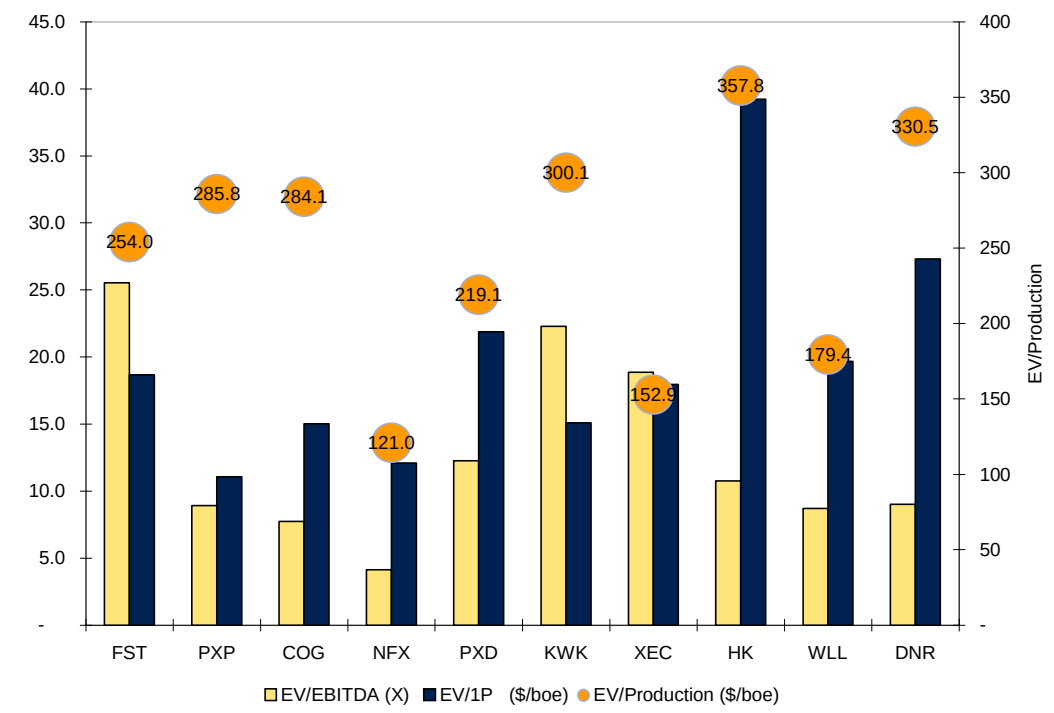
| Company | EV ($Bn) | Market Cap ($Bn) | P/E | Reserve (Million Boe) | Production (Million Boe) | EV/EBITDA (X) | EV/1P ($/Boe) | EV/Production ($/Boe) |
|---|---|---|---|---|---|---|---|---|
| Forest Oil Corp. | 6,439.4 | 4,452.6 | 16.9 | 353.2 | 26.0 | 25.5 | 18.7 | 254.0 |
| Plains Exploration & Production Company | 6,576.4 | 3,296.9 | 4.9 | 594.7 | 23.0 | 8.9 | 11.1 | 285.8 |
| Cabot Oil & Gas Corp. | 4,046.6 | 3,735.1 | 20.9 | 269.3 | 14.2 | 7.7 | 15.0 | 284.1 |
| Newfield Exploration Co. | 5,028.8 | 4,228.8 | 9.1 | 416.1 | 41.6 | 4.1 | 12.1 | 121.0 |
| Pioneer Natural Resource Company | 9,103.7 | 6,360.3 | 16.9 | 416.1 | 41.6 | 12.3 | 21.9 | 219.1 |
| Quicksilver Resources, Inc. | 3,898.9 | 3,113.3 | 6.9 | 258.3 | 13.0 | 22.3 | 15.1 | 300.1 |
| Cimarex Energy | 4,403.1 | 4,063.4 | 27.6 | 245.4 | 28.8 | 18.9 | 17.9 | 152.9 |
| PetroHawk Energy Corp. | 6,941.7 | 5,347.6 | 69.8 | 176.9 | 19.4 | 10.8 | 39.2 | 357.8 |
| Whiting Petroleum | 3,481.1 | 2,627.6 | 14.1 | 176.9 | 19.4 | 8.7 | 19.7 | 179.4 |
| Denbury Resources | 5,322.1 | 4,701.2 | 13.3 | 194.7 | 16.1 | 9.0 | 27.3 | 330.5 |

**Source: Company Sources**

**On peer group EV/Reserves multiple, FST implied price is around $56.3//share**

Using FST's proved reserves of around 353.2 MMboe (2.1 Tcfe) and the peer group EV/Reserves average of around 19.9 $/boe, the implied price for FST stock is around $56.3 /share, after taking into consideration the company's debt.

**Figure 27: Forest Oil Corporation Vs Peer Group, Key Valuation Multiples, 2008**




**Source: GlobalData**

# 7 Peer Group Analysis

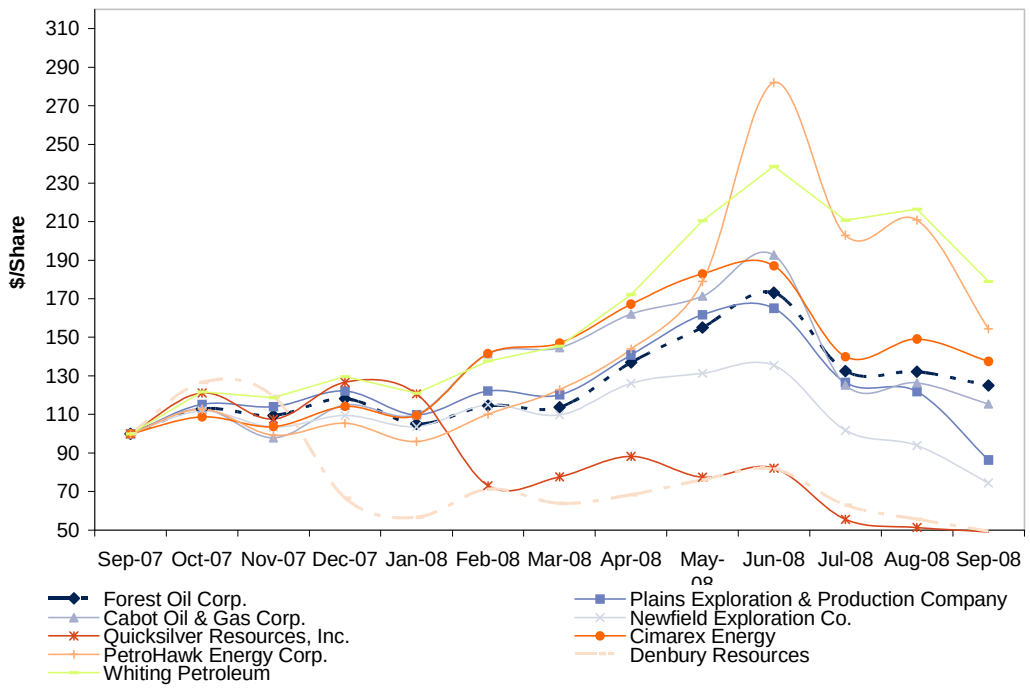
## 7.1 Share Price Performance

**FST share price reached record high of $83.1/ share in July 2008**

The following share price performance graph compares the share price performance of FST common stock to the share price of its peer-group. This peer-group includes other independent oil and gas exploration and production companies with a similar mix of onshore operations and comprises of Cabot Oil & Gas Corporation, Newfield Exploration Company, Quicksilver Resources, Inc, Cimarex Energy, Plains Exploration & Production Company, Pioneer Natural Resource Company, PetroHawk Energy Corp. Whiting Petroleum and Denbury Resources. The graph covers the period from September 2007 to September 2008, during which FST share price increased by 15.1% from $43.1 per share in September 2007 to $49.6 per share in September 2008, with a record high of $83.1 per shares reached recently on 1st July 2008.

The company's share price movement over the past year was in line with the performance of its peer group. FST is one of the best performing E&P stock YTD, with near-term exploration, appraisal and development upside. We believe that the stock price has further potential to rise.

**Figure 28: Forest Oil Corporation Vs. Peer Group Share Price Performance, September 2007-September 2008**




Source: GlobalData

## 7.2 Operational and Financial Performance

Table 29 compares the performance of FST with its peer group on operational and financial parameters. On operational and financial performance comparison, we have taken 14 industry metrics; six operational parameters and eight financial parameters. In operational parameters, we have included important metrics like, Total Reserves (MMboe), Finding Cost per BOE, Oil and Gas Finding & Development Reserve Addition Production Replacement (Annual), Reserve Life Index (Years), Finding and Development Costs ($/boe)-5yr Average, Total Production (MMboe). On financial parameters, the metrics considered are Oil & Gas Revenue per boe, Net Income per boe (5-Year), Lifting Cost per boe (5-Year), Net Income Margin, Cash Flow Margin (Annual), Net-back Margin (Annual), Recycle Ratio (5-Year), Lifting Cost per boe (5-Year).

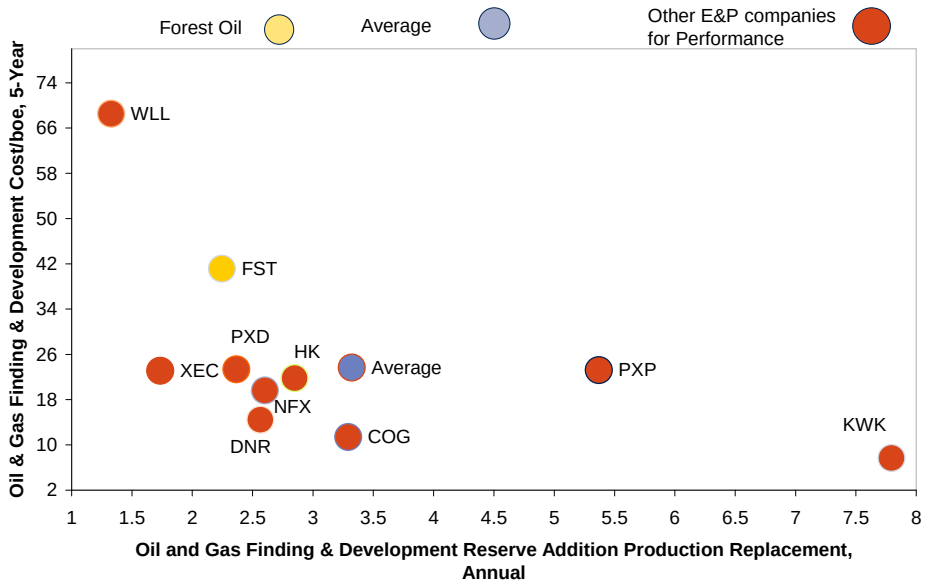
Despite high quality assets, proven track record of management, substantial upside in asset portfolio, FST presently trades at low end of peer group.

**Table 29: Forest Oil Corporation Vs. Peer Group Operational and Financial Performance, 2007**

| | Measure | Results | Peer Group Average | Peer Group Ranking |
|---|---|---|---|---|
| Operational Parameters | Total Reserves (MMboe) | 353.2 | 305.4 | 4.0 |
| | Total Production (MMboe) | 26.0 | 24.1 | 4.0 |
| | Reserve Life Index (Years) | 13.6 | 13.7 | 4.0 |
| | Oil & Gas Finding Cost per boe, 5-Year | 11.2 | 13.9 | 6.0 |
| | Oil and Gas Finding & Development Reserve Addition Production Replacement, Annual | 2.2 | 3.3 | 8.0 |
| | Oil & Gas Finding & Development Cost/boe, 5-Year | 41.1 | 23.7 | 9.0 |
| Financial Parameters | Oil & Gas Revenue per boe | 41.7 | 48.2 | 10.0 |
| | Net Income per boe, 5-Year | 8.7 | 11.5 | 9.0 |
| | Lifting Cost per boe, 5-Year | 8.7 | 10.9 | 4.0 |
| | Net Income Margin | 27.0 | 26.3 | 6.0 |
| | Cash Flow Margin, Annual | 62.6 | 56.6 | 2.0 |
| | Net-back Margin, Annual | 77.6 | 71.3 | 2.0 |
| | Recycle Ratio, 5-Year | 0.5 | 0.6 | 7.0 |
| | Lifting Cost per boe, 5-Year | 8.7 | 11.0 | 3.0 |

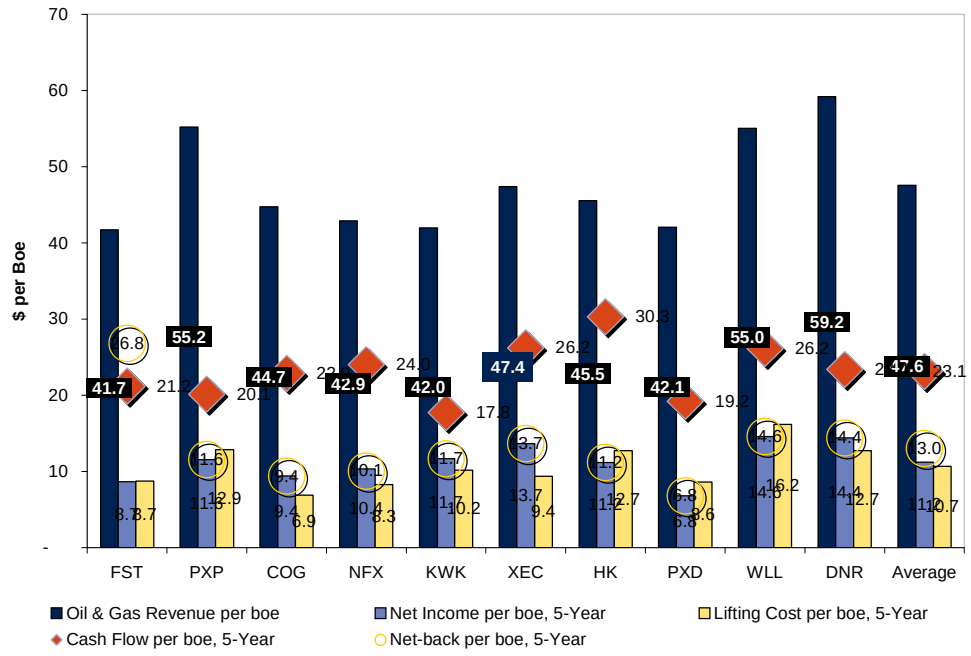
**Source: GlobalData**

**Figure 29: Forest Oil Corporation Vs Peer Group, F&D costs-5 Year Average and Reserve Replacement Ratio-Annual**



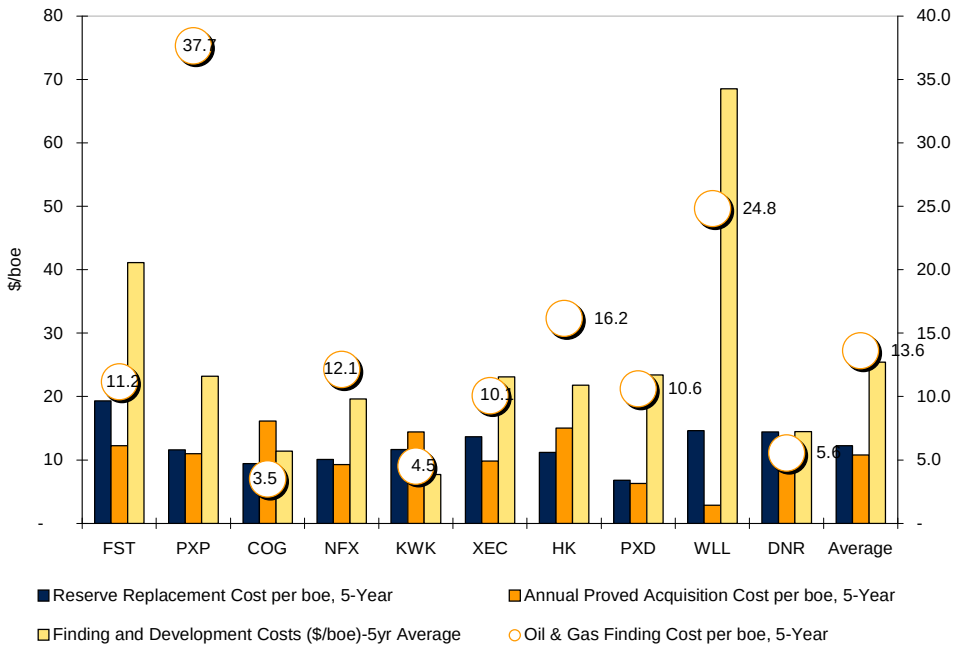

**Source: GlobalData**

**Figure 30: Forest Oil Corporation Vs. Peer Group , Results of Oil and Gas Operations per Boe, 5yr Average**



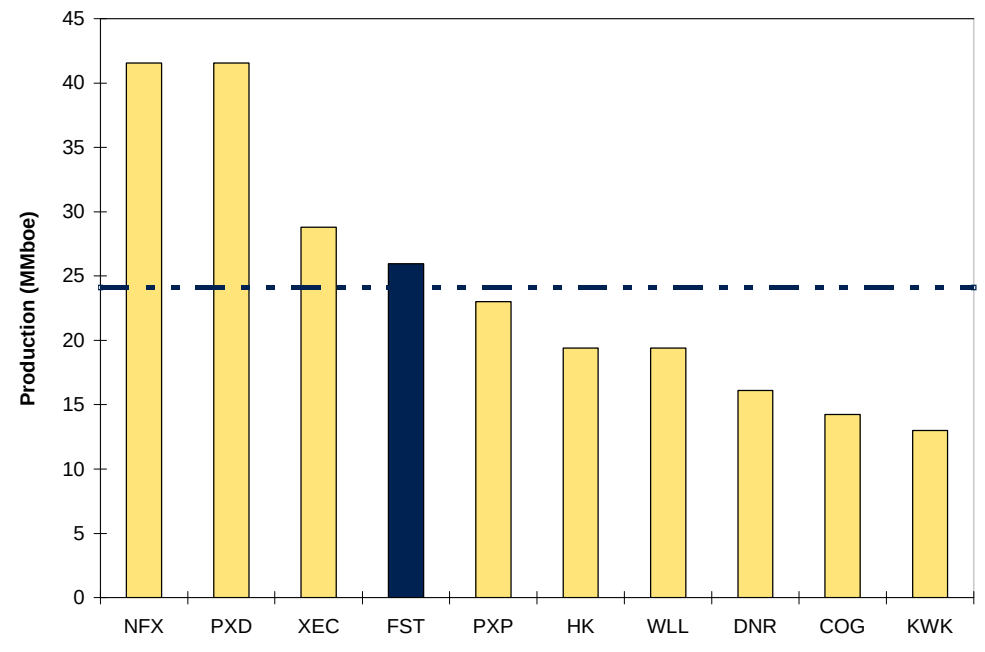

**Source: GlobalData**

**Figure 31: Forest Oil Corporation Vs. Peer Group, Cost per Boe, 5yr Average**



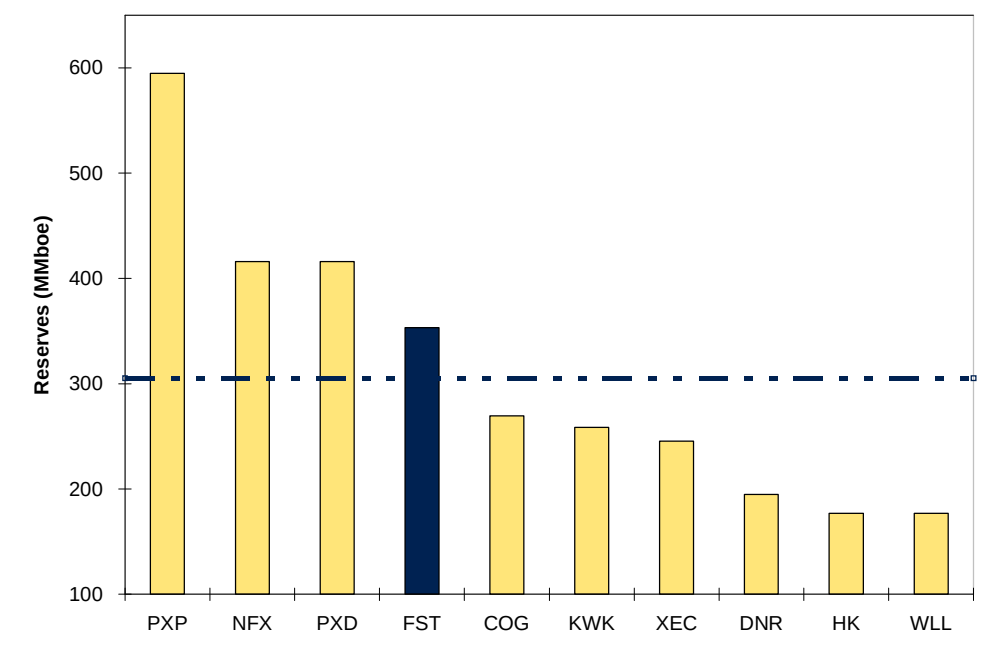

**Source: GlobalData**

**Figure 32: Forest Oil Corporation Vs. Peer Group, Production, MMboe, 2007**




Source: GlobalData

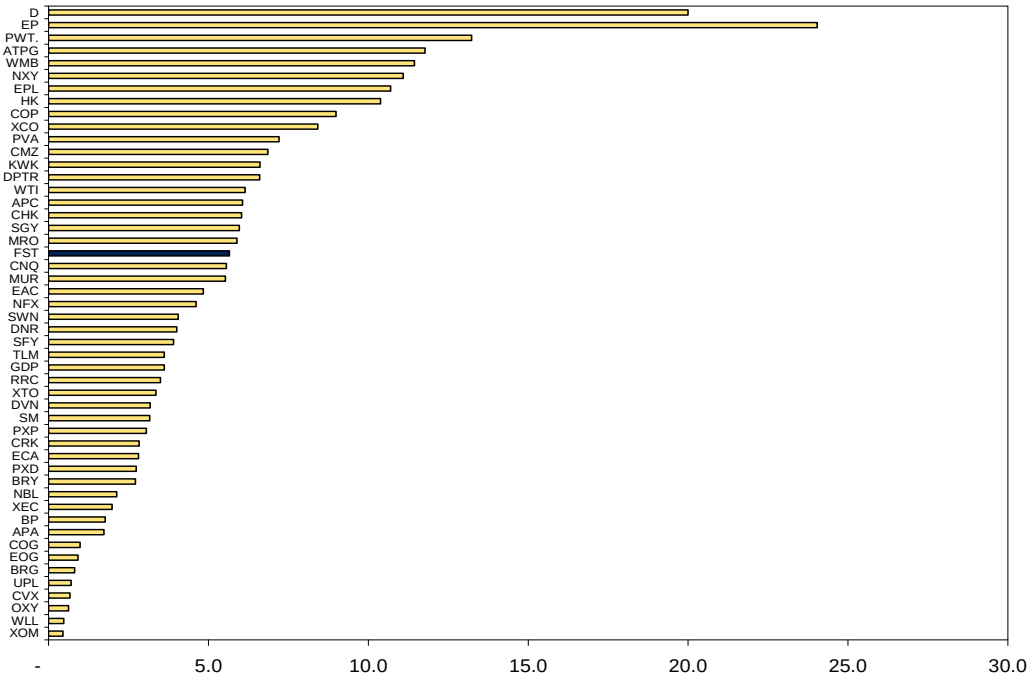
**Figure 33: Forest Oil Corporation Vs. Peer Group, Reserves, MMboe, 2007**




Source: GlobalData

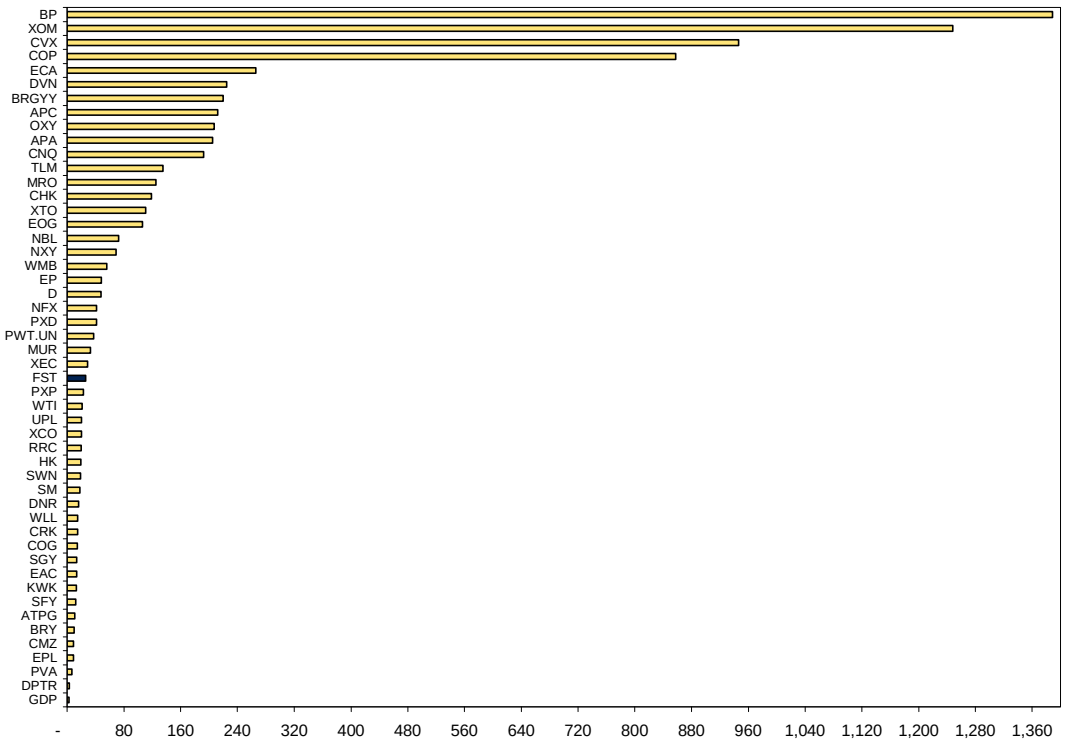
# 8 E&P Operational Composite Summary

**Figure 34: E&P Companies, Debt to Proved Reserves, Q208 to YE07 PR, $/boe,**



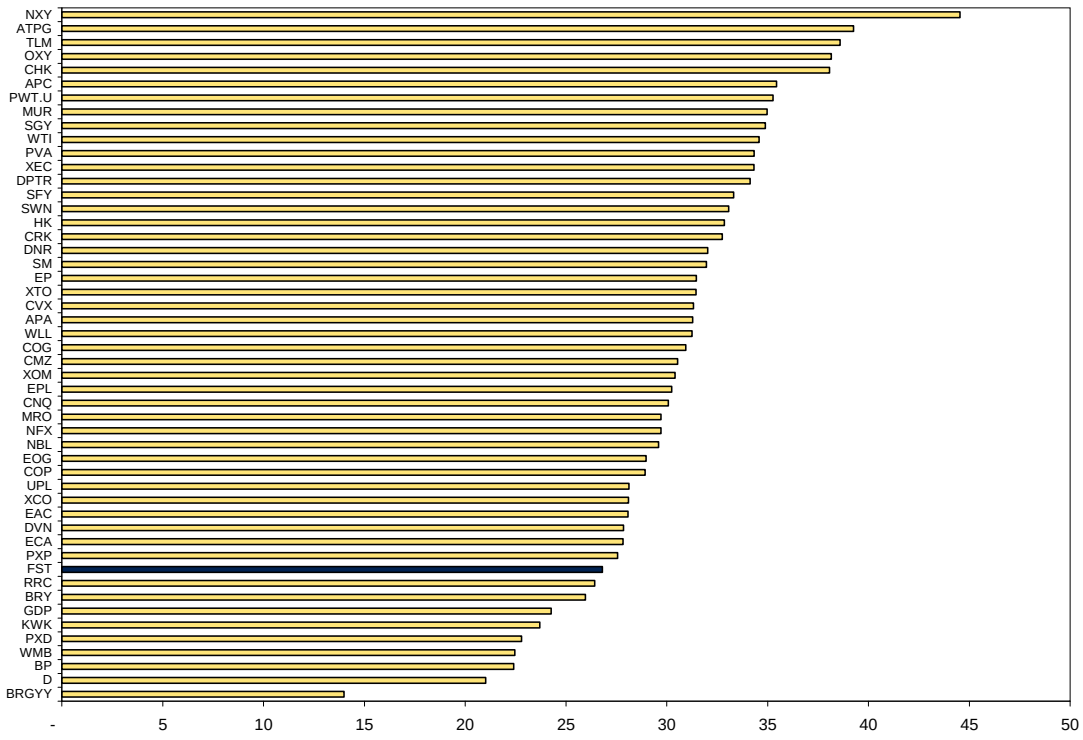

**Source: GlobalData**

**Figure 35: E&P Companies, Production, MMboe, 2007**



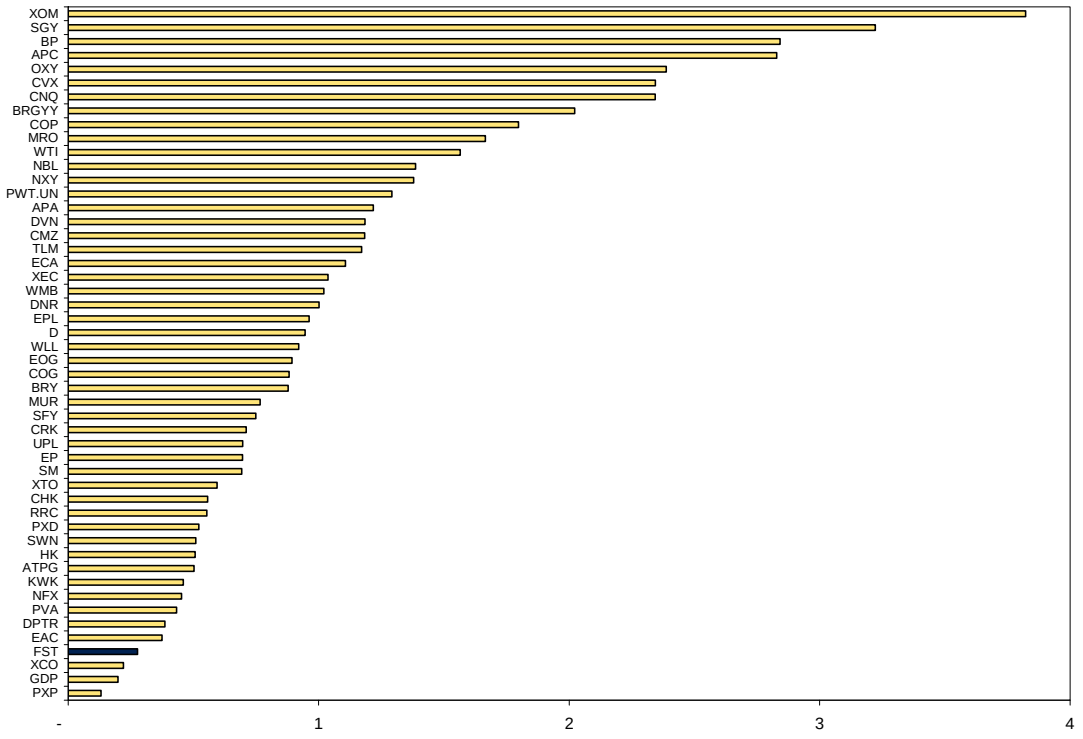

**Source: GlobalData**

**Figure 36: E&P Companies, Net-back per boe, 5-Year**



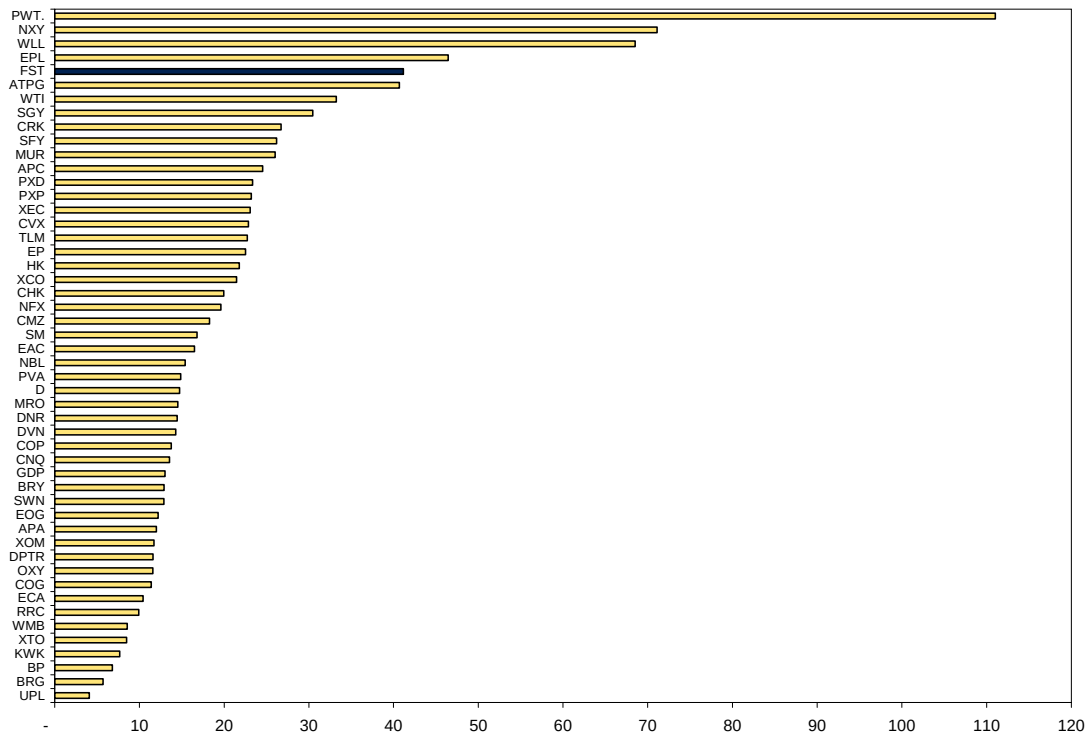

**Source: GlobalData**

**Figure 37: E&P Companies, Recycle Ratio (Net-back / RRC), Annual**



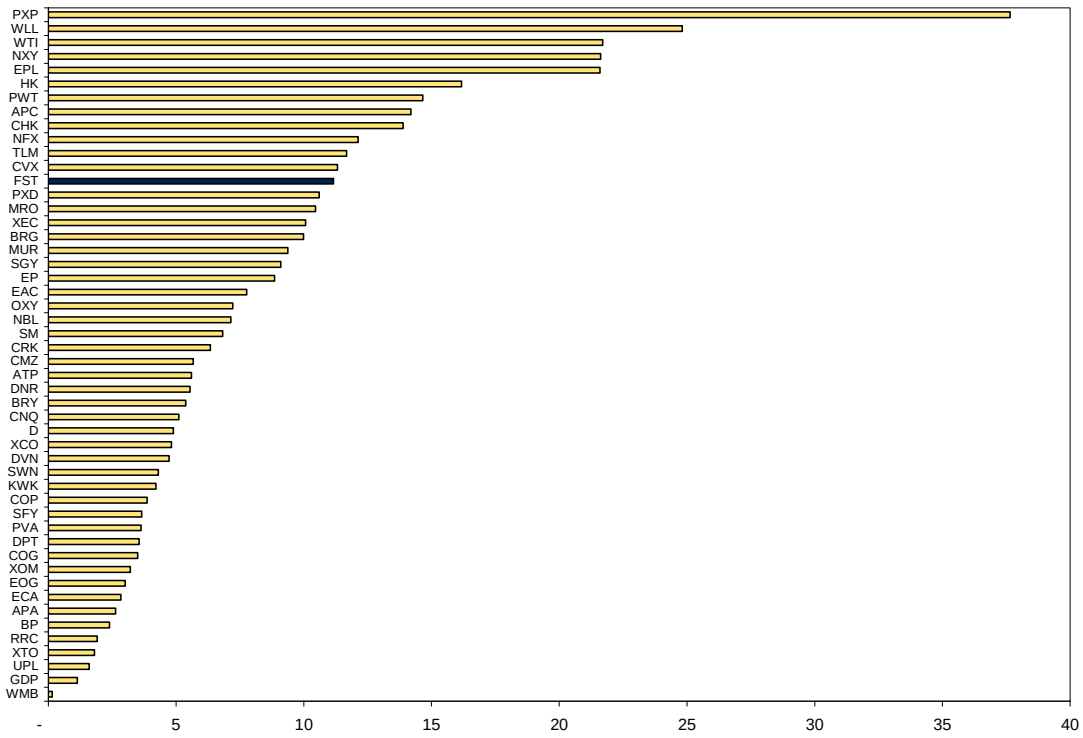

**Source: GlobalData**

**Figure 38: E&P Companies, Oil & Gas Finding and Development Cost per boe, 5-Year**



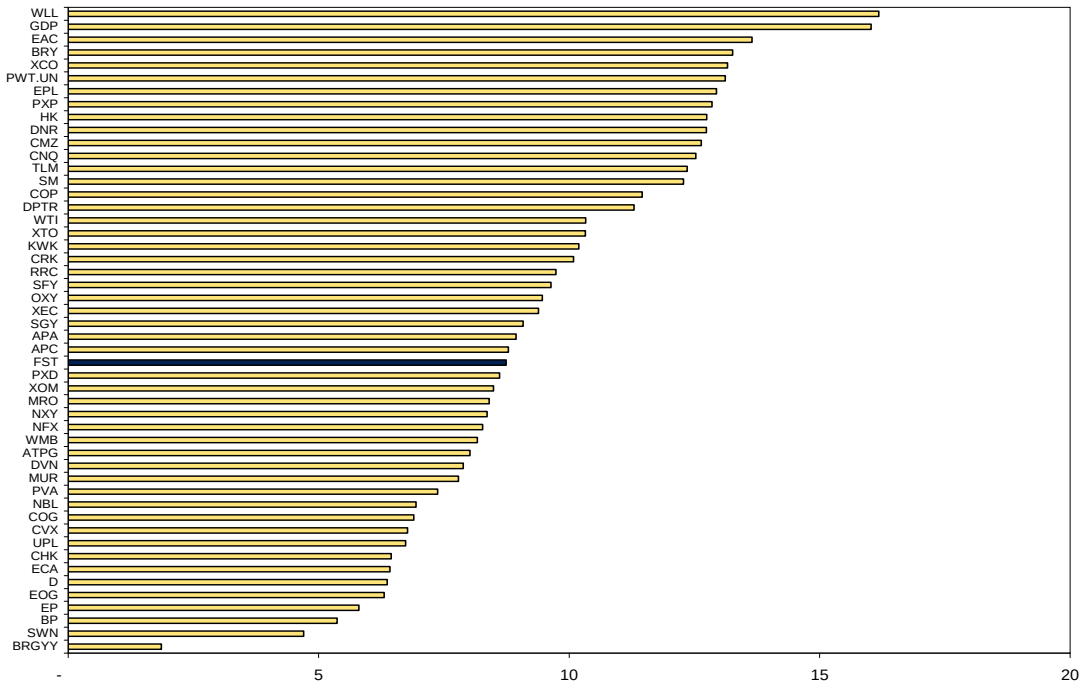

**Source: GlobalData**

**Figure 40: E&P Companies, Oil & Gas Finding Cost per boe, 5-Year**



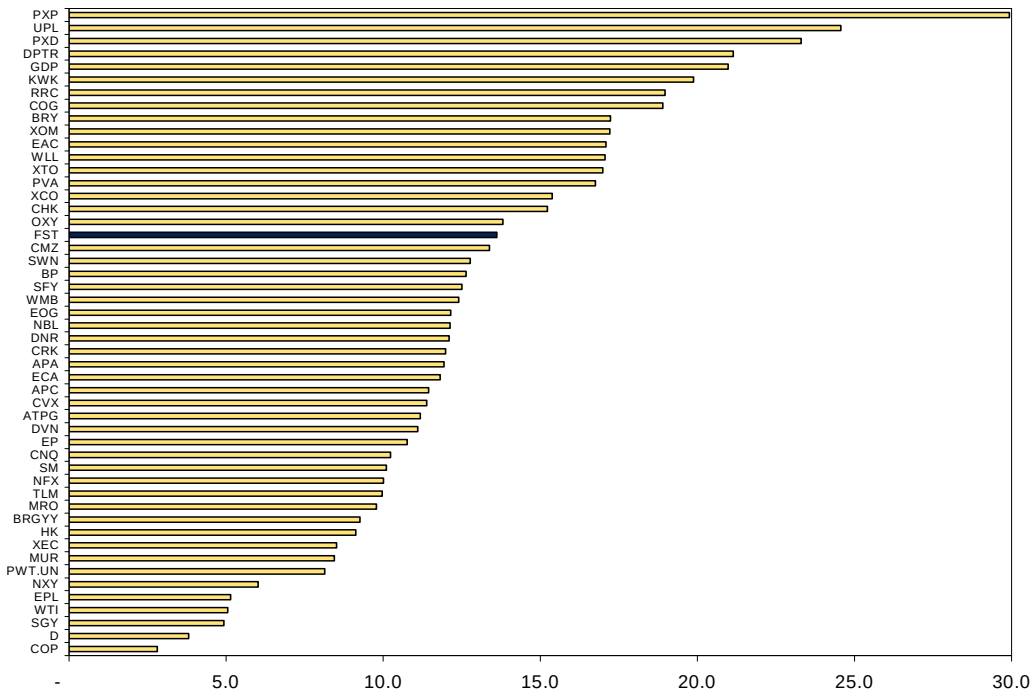

**Source: GlobalData**

**Figure 39: E&P Companies, Lifting Cost per boe, 5-Year**




**Source: GlobalData**

**Figure 41: E&P Companies, Reserves Life, 2007**




**Source: GlobalData**

# 9 Key Risks

Most of FST assets are still at the development and exploration stage and so the company's success depends upon the reserve potential of its properties and their drilling success. Given below is a list of risk factors related to FST.

## 9.1 Crude oil and natural gas prices

Any downtrend in global crude oil prices and natural gas will affect the operations of the company. In periods of sharply lower oil and natural gas prices, FST may curtail capital spending projects and will be unable to meets its financial obligations. To gauge the impact of the volatility of commodities prices on valuation, the section of this publication entitled "Sensitivity" provides investors a range of oil corresponding share price valuations.

## 9.2 Political Instability

FST's interests could be adversely affected by political instability, social, economic or changes in laws regulating petroleum sector. Any changes in domestic market obligation, which require domestic producers to sell oil or gas at below market rates for indeterminate periods of time, may have an adverse effect on the financial and operations performance of the company.

## 9.3 Competition

FST faces intense competition from independent, technology-driven companies as well as from both major and other inducements oil and natural gas companies.

## 9.4 Reserves and Drilling operations

Future success of the company to a large extent depends upon its ability to find, develop or acquire additional oil and gas reserves. Success of its exploration, exploitation, and development program has a significant impact on the operations of the company. Exploration, development, and production activities may be subject to technical and other operational issues. This may cause a lower than expected output and higher operating expenses, leading to lower earnings.

# 10 Market Scenario

## 10.1 The United States

The US is the one of the world's largest energy producer, consumer and importer. Oil is the single largest sources of primary energy generation mix in the country followed by coal and natural gas. With the production levels of various energy commodities declining over the last few years in the country as compared to the increasing consumption levels, have in turn made the U.S. one of the world's leading energy importers.

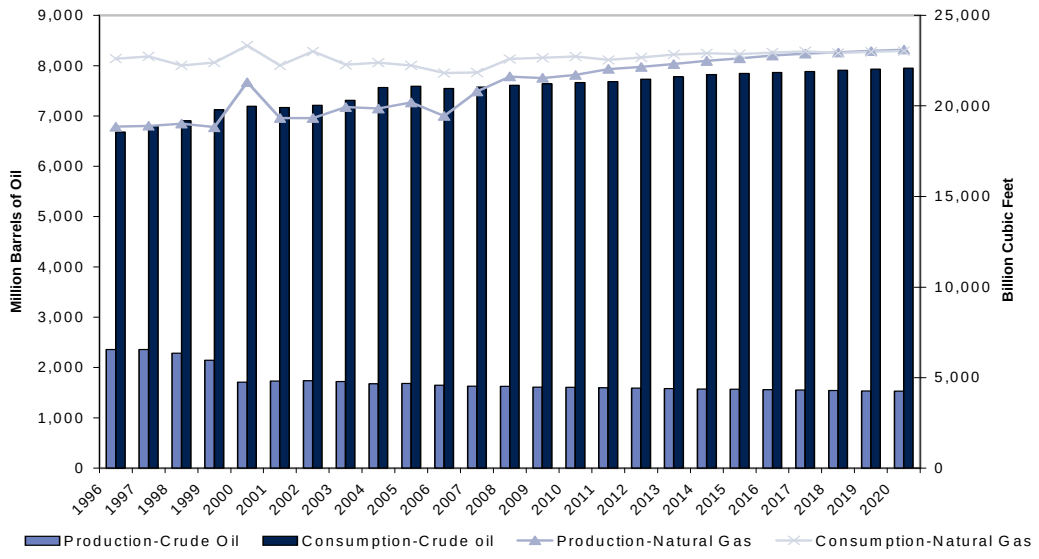
## 10.2 Reserves and Production

In 2007, recoverable oil and gas reserves in the US were estimated to be 21.2 billion barrels and 211.1 Tcf respectively. Majority of the country's oil reserves (around 80%) are concentrated in four major states Texas, Louisiana, Alaska and California. While, Texas comprises of around 22% of the total US oil reserves, Louisiana and Alaska each account for 20% and California accounts for 18%.

The United States is the world's largest energy producer, consumer, and net importer. It also ranks eleventh worldwide in reserves of oil, and sixth in natural gas reserves. The US oil production has been declining since few years. In 2005, Hurricanes Katrina and Rita slashed oil output from the Gulf of Mexico. The US is the world's largest consumer and second-largest producer of natural gas.

Oil production in 2007 was expected to be around 1,631.9 million barrels of oil and natural gas production was about 20,799.0 billion cubic feet. We expect crude oil and natural gas production to reach 1,527.8 million barrels and 23,104.7 billion cubic feet by 2020.

**Figure 42: The United States, Crude Oil and Natural Gas, Production and Consumption, 1996-2020**




**Source: GlobalData**

## 10.3 Imports and Exports

In 2007, the United States exported around 8.5 million barrels of oil and imported around 5,251.2 Mmbbls of oil. Natural gas exports and import during the same period were 681.6 Bcf and 3,587.2 Bcf respectively.

## 10.4 Infrastructure

United States plays an important role in the global refining industry. It accounts for 20.3% of the total world refining capacity. Baytown Refinery (Gulf Coast), Baton Rouge Refinery (Gulf Coast) and Texas City BP Refinery (Gulf Coast) are the largest refineries in the country.

Private players owned companies dominate the refining sector in The United States. The major players in the region are Valero Energy Corporation, Exxon Mobil Corporation, ConocoPhillips, British Petroleum Plc and Petroleos de Venezuela S.A. Together these companies operate 49.8% of total refining capacity of the country.

North America is the biggest consumer of natural gas in the world and the natural gas market in this region is dominated by private companies. Natural gas in this region is primarily consumed for industrial use. Declining domestic supplies of natural gas is driving the region towards increased imports of LNG. Major hindrances to the growth of the LNG industry in this region are difficulties in getting approvals for construction of LNG terminals from regulatory authorities apart from opposition from private and public bodies on environmental and safety issues. As a safeguard, the industry has been forced to develop offshore LNG importation methods. However, the Environmental Act of 2005, which gave licensing rights of

LNG terminals to Federal Energy Regulatory Commission (FERC), has helped in rapid expansion of the LNG industry in the United States. Major expansions are slated for 2008 (8 terminals), 2009 (9 terminals) and 2010 (4 terminals).

At the end of 2007, North America accounted for 10.3% of the total world regasification capacity and 0.6% of the liquefaction capacity. The largest liquefaction terminal of North America is Kenai LNG.

## 10.5 Regulations

The Department of Energy (DOE) is responsible for implementing energy policies and programmes, monitoring the state of energy markets. The Federal Energy Regulatory Commission (FERC) and various state public utility commissions share responsibility for regulating gas and electricity markets.

## 10.6 Key Fiscal Regime

The US oil industry developed on the basis of private leases. Typically, the lessees have to pay a signature bonus, rentals, and standard royalties. In most parts of the US the royalty rate is 12.5%, but in some 16.7%. Leases last as long as oil is produced in paying quantities. Companies engaged in oil and natural gas production pay a wide range of taxes to state, federal, and even local governments. In addition to income taxes, oil and gas companies also pay severance taxes to state governments.

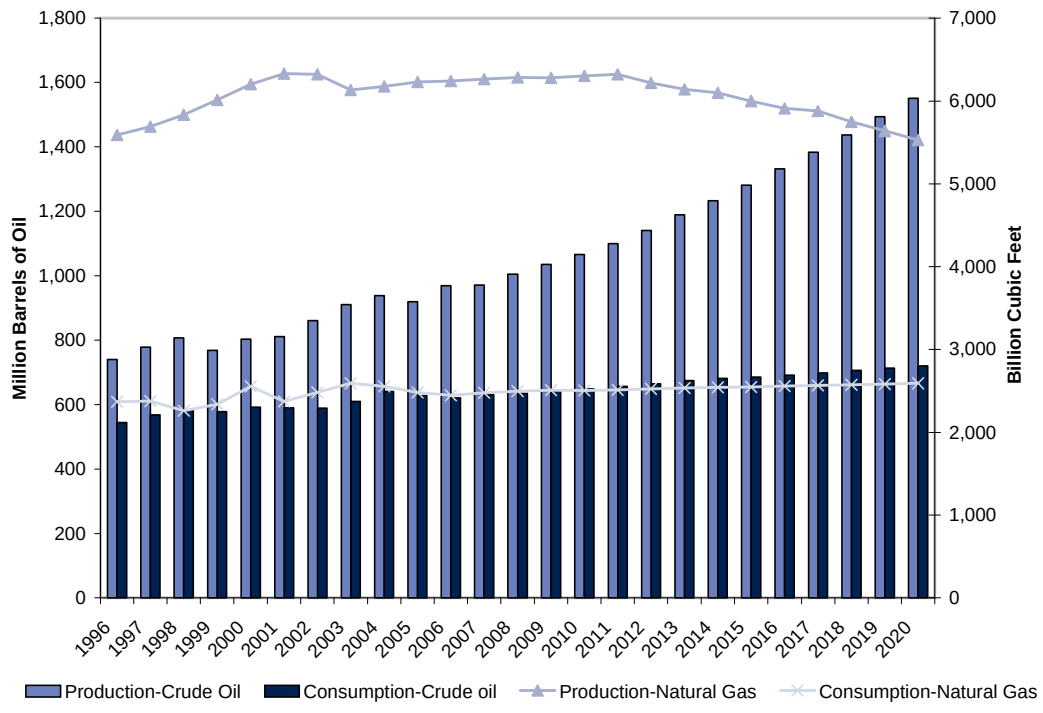
## 10.7 Canada

### 10.7.1 Reserves and Production

In 2007, recoverable oil and gas reserves in Canada were estimated to be 5.0 billion barrels and 57.5 tcf respectively. The bulk of these reserves (over 95%) are oil sands deposits in Alberta.

Oil production in 2007 was about 971.5 million barrels of oil and natural gas production was about 6,261.0 billion cubic feet. We expect crude oil and natural gas production to reach 1,550.9 million barrels and 5,527.9 billion cubic feet by 2020.

**Figure 43: Canada, Crude Oil and Natural Gas, Production and Consumption, 1996-2020**




**Source: GlobalData**

### 10.7.2 Import and Exports

In 2007, Canada exported around 604.9 million barrels of oil and imported around 328.7 million barrels of oil. The country sends over 99% of its oil exports to the U.S., and it is consistently one of the top three sources of U.S. oil imports. During the same period around 3,682.2 billion cubic feet of natural gas was exported.

### 10.7.3 Infrastructure

The total length of crude oil, petroleum product and natural gas pipeline network in Canada in 2007 is 84,426.9 Km. Canada’s contribution to Asia Pacific's total pipeline length is 14.6%. Major pipelines in the country include Alberta System Pipeline, Canadian Mainline Pipeline System and Atco Pipeline System. These pipelines are operated by NOVA Gas Transmission Ltd, TransCanada Pipelines Limited, Atco Ltd. respectively.

The total refining capacity of Canada in 2007 is 97.6 MMTPA. Canada's contribution to North America's total refining capacity is 10%. Major refineries of the country are Levis Refinery, Saint John Refinery, Strathcona Refinery, Shell Montreal Refinery and Petro Canada Montreal Refinery. The country's refining sector is dominated by private sector refiners. Valero Energy Corporation, Irving Oil Ltd, Imperial Oil Ltd, Royal Dutch Shell Plc, Petro-Canada and Harvest Energy Trust are the key companies operating in Canada. ExxonMobil Corporation has 69.6% stakes in Imperial Oil Ltd.

The total regasification capacity of Canada is expected to increase from 0 Bcf in 2007 to 1,412.7 Bcf in 2012. Bear Head LNG, Canaport LNG, Kitimat LNG and Maple LNG plants are being planned to commence operation during the period 2007-2012.

### 10.7.4 Regulations

In Canada, jurisdiction over energy is divided between the federal, provincial, and territorial governments. Provincial governments have jurisdictional responsibilities over the exploration, development, conservation, and management of non-renewable natural resources, as well as over sites and facilities for the generation and production of electrical energy within their borders. Federal jurisdiction in energy is primarily associated with regulation of inter-provincial and international trade and commerce, and the conservation and management of non-renewable resources on federal lands.

### 10.7.5 Key Fiscal Regime

Petroleum rights are awarded under Concession terms. The principal source of revenue to the government is royalties. Other sources of revenue are rental payments, cash bonus bids, forfeited work commitment deposits, and administrative and licensing fees. Corporate income tax is also payable. The federal government levies royalties on oil and natural gas production from federally owned Crown lands including Northwest Territories, Yukon, Beaufort Sea, Arctic Islands, Hudson Bay, and the east and west coast offshore areas. The royalty increases from 1% to 5% of gross revenue over the first six years of production or until the initial investment has been recovered, after which the royalty is 30% of net cash flow and 5% of gross revenue.

Mostly, provincial corporate income tax regimes mirror the federal system (i.e., they use the same base but apply a different tax rate). There is a two-tier tax system consisting of federal taxes and provincial taxes. Table 30 details the federal corporate income tax applicable.

**Table 30: Canada, Provincial Corporate Income Tax , 2007**

| Provincial Corporate Income Tax | Rate |
|---|---|
| British Columbia | 12.00% |
| Saskatchewan | 14.00% |
| Alberta | 10.00% |
| Yukon | 15.00% |
| Newfoundland Offshore | 14.00% |
| Nova Scotia | 16.00% |
| Northwest Territories and Nunavut | 11.50% |

**Source: National Sources**

Table 31 details the provincial corporate income tax applicable.

**Table 31: Canada, Provincial Corporate Income Tax, 2007**

| Provincial Corporate Income Tax | Rate |
|---|---|
| British Columbia | 12.00% |
| Saskatchewan | 14.00% |
| Alberta | 10.00% |
| Yukon | 15.00% |
| Newfoundland Offshore | 14.00% |
| Nova Scotia | 16.00% |
| Northwest Territories and Nunavut | 11.50% |

**Source: National Sources**

## *10.8 Italy*

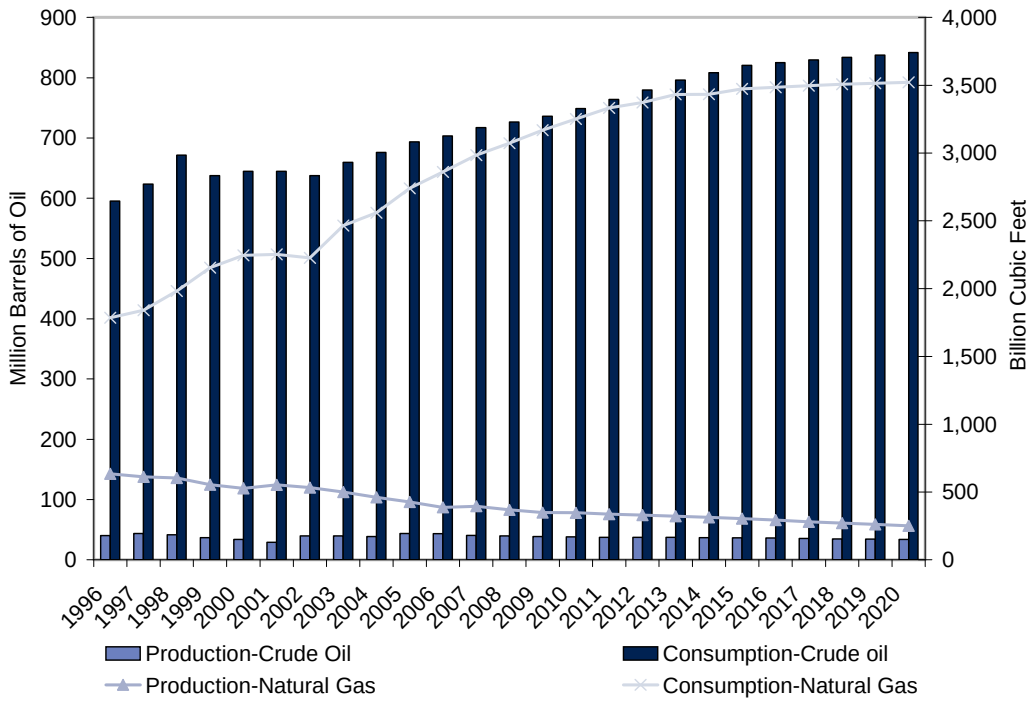
Italy has limited domestic energy supplies, making it heavily dependent on energy imports to meets its growing energy consumption demands. Over the last decade, oil's share in Italy's total energy mix has been decreasing due to increased usage of natural gas. Italy has become a major consumer of gas, with its consumption levels being the highest in the EU.

### 10.8.1 Reserves and Production

In 2007, recoverable oil and gas reserves in Italy were estimated to be 603.0 million barrels and 7.5 tcf respectively.

Oil production in 2007 was about 40.8 million barrels and natural gas production was about 395.5 billion cubic feet. We expect crude oil and natural gas production to reach 34.0 million barrels and 251.9 billion cubic feet by 2020.

**Figure 44: Italy, Crude Oil and Natural Gas, Production and Consumption, 1996-2020**




**Source: GlobalData**

### 10.8.2 Import and Exports

In 2007, Italy exported around 5.2 million barrels of oil and imported around 672.2 million barrels of oil. During the same period around 12.0 billion cubic feet of natural gas was exported and around 2,784.4 billion cubic feet of natural gas were imported.

### 10.8.3 Infrastructure

The total refining capacity of Italy in 2007 is 110.9 MMTPA. Italy's contribution to Europe's total refining capacity is 9.3%. Major refineries of the country are Sarroch Refinery, Impianti Sud Refinery, Impianti Nord Refinery, Milazzo Refinery and Sannazzaro de Burgondi Refinery. The country's refining sector is dominated by private sector refiners. Saras SPA, ERG Raffinerie Mediterranee (ERG Med), ENI S.p.A., Kuwait Oil Company, Sarpom SPA, ExxonMobil Corporation and Tamoil are the key companies operating in Italy.

The total length of crude oil, petroleum product and natural gas pipeline network in Italy in 2007 was 7,547.2 Km. Italy's contribution to Europe total pipeline length is 1.6%.Major pipelines in the country are Savona- Trecate Pipeline, Eni S.p.A Product Pipeline System, and Snam Rete Gas Pipeline System which are operated by SARPOM S.p.A., ENI S.p.A, and Snam Rete Gas S.p.A respectively.

The total regasification capacity of Italy in 2007 was 123.6 Bcf. The regasification capacity in Italy has remained same from 2000 to 2007. It is expected to increase from 123.6 Bcf in 2007 to 688.4 Bcf in 2012 at an AAGR of 34.3%. Italy's share in Europe's overall regasification capacity is 3.2%. Brindisi LNG and Isola di Porto Levante LNG (Adriatic LNG) plants will commence operations in 2008.

### 10.8.4 Regulations

All natural resource in Italy belongs to the state. License is given to the private company for exploration and production. The term of the license is decided by negotiation between the state and the operator. All natural resource in Italy belongs to the state. License is given to the private company for exploration and production. The term of the license is decided by negotiation between the state and the operator

### 10.8.5 Key Fiscal Regime

Onshore petroleum exploration and production is subject to 7% royalty and offshore petroleum exploration and production is subject to 4% royalty. No royalties are due on the first annual 20 million cubic meters of gas and 20,000 barrels of oil produced from individual accumulations in a year.

# 11 Appendix

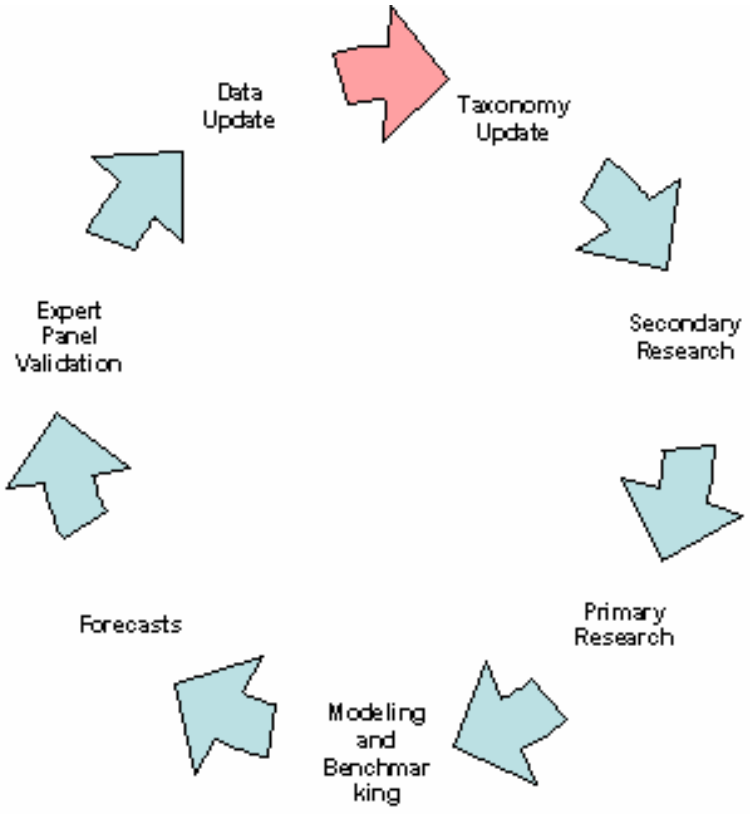
## 11.1 Methodology

GlobalData's dedicated Research and Analysis Teams consists of experienced professionals with a pedigree in marketing, market research, consulting background in the energy industry and advanced statistical expertise.

GlobalData adheres to the Codes of Practice of the Market Research Society (www.mrs.org.uk) and the Society of Competitive Intelligence Professionals (www.scip.org).

All GlobalData databases are continuously updated and revised. The following research methodology is followed for all databases and reports.

**Figure 45: GlobalData Methodology**




Source: GlobalData

### 11.1.1 Coverage

The objective of updating GlobalData's coverage is to ensure that it represents the most up to date vision of the industry possible.

Changes to the industry taxonomy are built on the basis of extensive research of company, association and competitor sources.

Company coverage is based on three key factors: market capitalization, revenues and media attention/innovation/ market potential.

- An exhaustive search of 56 member exchanges is conducted and companies are prioritized on the basis of their market capitalization.
- The estimated revenues of all major companies, including private and governmental, are gathered and used to prioritize coverage.
- Companies which are making the news, or which are of particular interest due to their innovative approach are prioritized.

GlobalData aims to cover all major news events and deals in the energy industry, updated on a daily basis.

The coverage is further streamlined and strengthened with additional inputs from GlobalData's Expert Panel (see below).

### 11.1.2 Secondary Research

The research process begins with exhaustive secondary research on internal and external sources being carried out to source qualitative and quantitative information relating to each market.

The secondary research sources that are typically referred to include, but are not limited to:

- Company websites, annual reports, financial reports, broker reports, investor presentations and SEC Filings
- Industry trade journals and other literature
- Internal and external proprietary databases
- National government documents, statistical databases and market reports
- News articles, press releases and web-casts specific to the companies operating in the market

### 11.1.3 Primary Research

GlobalData conducts hundreds of primary interviews a year with industry participants and commentators in order to validate its data and analysis. A typical research interview fulfills the following functions:

- It provides first-hand information on the market size, market trends, growth trends, competitive landscape, future outlook etc.
- Helps in validating and strengthening the secondary research findings.
- Further develops the Analyses Team's expertise and market understanding.

Primary research involves E-mail interactions, telephonic interviews as well as face-to-face interviews for each market, category, segment and sub-segment across geographies.

The participants who typically take part in such a process include, but are not limited to:

- Industry participants: CEOs, VPs, business development managers, market intelligence managers and national sales managers
- Outside experts: Investment Bankers, Valuation Experts, Research Analysts and key opinion leaders specializing in oil and gas markets.

### 11.1.4 Forecasts

Energy supply and demand forecast is done considering national energy policy, projections from company sources like BP, ENI etc., projections from country and international energy agencies like IEA, OPEC and historical growth rates.

- Historical relationship between GDP and consumption growth for a particular commodity is analyzed for forecasting consumption in a country.
- Ten-year historical growth rates together with information relating to new projects and planned expansions are used as a base for forecasting reserves and production of oil, natural gas, coal and electricity.

The following parameters are considered for forecasting the oil and gas production, revenues, cash flows, contractor take and government take –

- Reserves and Production
- Capital and Operating Expenditure
- Fiscal Regime
- Key Economic Assumptions regarding Oil / Gas Prices, field life, exploration spending etc

*Reserves and Production*

Crude Oil and Natural Gas production forecast is based on our view of likely future production and corresponding reserves and costs estimates for specific assets. As such they are broadly equivalent to company proved plus probable (2p) reserves and production estimates.

Production forecast is done using multiple regression models. Decline curve analysis and Hubbert's logistic models are used in declining and early producing fields respectively.

*Capital and Operating Expenditure*

GlobalData forecasts the capital and operating expenditure associated with our '2p' view of reserves and production for an asset or group of assets. Real time Capital Expenditure (CAPEX) and Operation Expenditure (OPEX) are used for assets valuation, wherever possible; otherwise thumb rules were set for calculating Capex and Opex of a project. Investments are categorized as development and operating (production) costs. CAPEX distribution is done on an assumption that, only 70% of it goes as tangibles and remaining 30% are intangibles.

#### *11.1.4.1* ***Capital Costs***

These include, where appropriate, costs for production facilities, process equipment, subsea facilities, development drilling, pipelines, offshore loading facilities, terminals, any 'other' capital costs, and finally any abandonment costs.

#### *11.1.4.2* ***Exploration and Appraisal (E&A) Costs***

In most of the cases asset cash flows do not include E&A expenditures, and hence the economics presented represent project economics, not full life-cycle economics. However, in some regions E& A costs are included in the asset cash flows, usually in PSC-type regimes, since they have an impact upon the tax calculation.

#### *11.1.4.3* ***Operating Costs***

These include, where appropriate, costs for fixed and variable field operations, transportation (non-tariff), leasing, insurance and G&A. Additionally they include any tariffs paid to other assets for transportation and/or processing.

#### ***11.1.4.4 Fiscal Regime***

Specific country or asset fiscal terms are applied to the asset for valuation. GlobalData Fiscal regime model covers various types of fiscal regime, royalty/tax, production sharing contract, and joint ventures. The model covers key fiscal terms like:

- Royalty
- Bonuses
- Rentals
- Fees
- Cost Recovery

- Profit Oil
- Taxation
- Deduction and depreciation
- Withholding Taxes
- Ring Fence

## 11.2 Key Economic Assumptions

*Oil and Gas Price Assumptions*

Crude oil price for asset specific quality is calculated using statistical analysis of crude oil price differentials and differences in oil qualities with respect to Brent blend as the benchmark. Crude oil price forecast is done using GlobalData forecast model (futures price till 2012 are taken from NYMEX, thereafter the prices are forecasted using ten year moving average inflation. Prices for other crude blends are assessed in relation to Brent blend and are based on their oil quality variables- API sulfur and TAN, based on which each crude blend is assigned a percentage (%) discount or premium.

GlobalData future prices taken from NYMEX are mentioned in table above, escalating at 2.5% from 2012 onwards.

**Table 32: NYMEX Future Prices**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| Crude Oil Price | 125.7 | 126.2 | 124.4 | 122.7 | 122.7 | 125.7 |
| Natural Gas Price | 9.5 | 9.7 | 9.4 | 8.9 | 8.7 | 9.5 |

**Source: GlobalData**

*Field Life*

In valuing companies, the fields are assumed to cease production when net revenues (after royalty and operating costs) are negative, and no positive net revenues are forecast.

*Exploration Spending*

We have excluded future exploration spending from our corporate cash flows.

G & A and Financing expenses

We have excluded central G & A costs and financing costs from our valuations.

*Inflation Rate*

GlobalData's long-term inflation assumption is 2.5% per annum.

*Discount Rate and Date*

GlobalData assumes nominal discount rate to be 10% and discount date is 1 January 2007.

## 11.3 Expert Panel Validation

GlobalData uses a panel of experts to cross verify research and forecast methodologies and drive its analytical content.

The GlobalData expert panel comprises of marketing managers, product specialists, international sales managers from energy companies; academics and geologists from research universities, consultants from venture capital funds and distributors/suppliers of oil and gas goods and services.

Details of the make up of the expert panel can be viewed through website, and are available to clients on request.

## 11.4 Definitions

- PSA means production sharing agreement.
- Available Gas/Oil means all crude oil/LPG/condensate and natural gas produced and saved from the contract area and not used in the petroleum operations
- Barrel or "BBL" means a quantity equivalent in volume to forty-two (42) United States Gallons adjusted to sixty degrees (60º) Fahrenheit after correction for basic sediments and water.
- Barrel of Oil Equivalent or "BOE" means the volume of crude oil, condensate, natural gas or LPG determined in Million British Thermal Units (MMBTU's) on heat content basis in accordance with the rules.
- Calendar Month or "Month" means any of the twelve months of the calendar year.
- Calendar Year means the period from January 1 to December 31, both inclusive, according to the Gregorian calendar.
- Commercial Discovery" means a discovery of petroleum by one or more appraisal wells which, in the opinion of the contractor, would yield a reasonable profit on the funds invested in development and production operations.
- Commercial production means production of petroleum out of a commercial discovery, which production ensures at least the recovery of all expenditure directly attributable to such discovery within a reasonable time and the earning of a reasonable profit.

- Cost recovery gas means the natural gas available to contractor for the recovery of its expenditure.
- Cost recovery oil means the crude oil, condensate, and LPG available to contractor for the recovery of its expenditure.
- Exploration operations means the search for petroleum in the contract area previously not known to have existed, using geological, geophysical and other methods and the drilling of exploration well(s) and any relevant processing and appraisal work, including technical and economic feasibility studies.
- License means a license granted in respect of the contract area in accordance with the rules.
- Profit gas means the natural gas to be shared between Government Holdings and the contractor.
- Profit oil means the crude oil, condensate, and LPG to be shared between Government Holdings and the contractor.

## 11.5 Unit Of Measure

**BCM-**Billion cubic meters

**BOPD-**Barrels of oil per day

**Bcf-**Billion Cubic Feet

**Mcf-**Thousand cubic feet

**MMcf-**Million Cubic Feet

**MMbbls-**Million Barrels of Oil

**MMBTU-** Million British thermal units

**Tcf-** Trillion cubic feet

**MMTPA –** Million Metric Tonnes per Annum

(1 MMTPA = 20081.55 BOPD)

## 11.6 Disclosure information

## 11.7 Disclaimer



The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that GlobalData delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such GlobalData can accept no liability whatever for actions taken based on any information that may subsequently prove to be