

Forest Oil Corporation
Revise to Neutral on Controlling Owner

Symbol	Price	Shares	Market	Net		McDep	EV/	EV/	P/E	Div'd	PV/
	(\$/sh)			Cap	Present		Debt/	Sales		Ebitda	NTM
	24-May	(mm)	(\$mm)	Value	Present	Ratio	2002E	NTM	NTM	(%)	NTM
FST	31.05	47	1,450	35.00	0.30	0.92	4.2	7.2	25	-	7.8

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses
 EV = Enterprise Value = Market Cap and Debt: \$mm 2,170
 Ebitda = Earnings before interest, tax, depreciation and amortization: \$mm 302
 NTM = Next Twelve Months Ended June 30, 2003; P/E = Stock Price to Earnings
 PV = Present Value of oil and gas: \$mm 2,360

Summary and Recommendation

We revise our recommendation to Neutral from Buy for the common shares of Forest Oil because the controlling owner, Mr. Phil Anschutz, has taken two strikes for destroying shareholder value since our initial recommendation. Strike one is the scandal at Qwest Communications where *Business Week* has labeled the self-dealing of the controlling shareholder, Mr. Anschutz, a “stink bomb”. Strike two is Mr. Anschutz’ proposal to fleece investors in a new energy infrastructure partnership. Nothing untoward has happened at Forest, to our knowledge, but we do not want to wait for a possible Strike three.

The Destruction of an Engine of a Regional Economy

It is not for us to write the full story of the tragedy of the telephone company of the Mountain States. Recall that Mr. Anschutz’s company, Qwest, acquired control of U.S. West, the renamed Mountain Bell Telephone Company. The subsequent 90% decline in stock price to low single digits and the downgrading of debt to junk status did not have to happen. Who can blame employees and investors who have lost retirement savings if they seek some measure of satisfaction from those responsible? Nor can we just shrug and say, “That’s too bad”, when there may be fraud. If so, we sense the possibility of a long period of recrimination perhaps ending in criminal and/or civil convictions.

Energy Infrastructure Partnership Scandal Yet to Unfold

We wrote earlier about Mr. Anschutz's filing with the Securities and Exchange Commission to sell units of Pacific Energy Partners (proposed symbol PGX).

“To form PGX, Mr. Anschutz would bring together scattered oil pipeline assets in a new entity. Initially PGX would pay distributions of \$1.85 per year on units that would be priced at about \$20. Subordinated units owned by Mr. Anschutz that would forgo cash payout if operations faltered temporarily would prop up the artificially high distribution. The hope would be that as investors see that the distribution is actually paid for a few quarters the price of the units would go up and the yield would go down. A higher unit price would open the spigots to cheap financing that could be used to make acquisitions that could help spike the distribution to the point where the GP tax really bites. The trigger point for the incremental tax rate going to 50% is a distribution of only \$2.40 per unit. Thus for an increase of only 30% in distribution the rate goes to the max. Compare that to a required increase in income of several fold to go from the lowest federal tax rate of 15% to the highest 39%.” (from *Meter Reader*, April 15, 2002).

Controlling Owner Aside, Forest's Prospects Favorable

We plan to continue our research coverage of Forest. Ideally there will be an opportunity to recommend the stock again when the current controlling owner is gone. Here are the projections that feed into our assessment of present value that allows calculation of the McDep Ratio (see Table).

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McDep Associates
Independent Stock Idea
 May 24, 2002

Forest Oil Corporation
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next</i>
	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/02</i>	<i>12/31/02</i>	<i>2002E</i>	<i>3/31/03</i>	<i>6/30/03</i>	<i>Twelve</i>
								<i>Months</i>
								<i>6/30/03</i>
Volume								
Natural Gas (mmcf)	247	247	247	247	247	247	247	247
Oil (mmb)	2	2	2	2	8	2	2	8
Oil (mbd)	22	22	22	22	22	22	22	22
Total gas & oil (bcf)	34	34	35	35	137	34	34	137
Price								
Natural gas (\$/mcf)								
Henry Hub (\$/mmbtu)	2.53	3.46	3.56	3.87	3.35	4.12	3.82	3.84
Company	2.38	3.31	3.41	3.72	3.22	3.97	3.67	4.08
Oil (\$/bbl)								
WTI Cushing	21.60	26.79	26.13	25.76	25.07	25.19	24.67	25.44
Company	18.76	24.11	23.51	23.18	22.41	22.67	22.20	22.90
Total gas & oil (\$/mcf)	2.64	3.55	3.58	3.77	3.82	3.91	3.68	3.73
Revenue (\$mm)								
Natural Gas	53	74	77	85	291	88	83	368
Oil	36	47	47	46	176	44	43	180
Other	60	-	-	-	60	-	-	-
Total	149	122	124	130	525	132	126	513
Expense								
Operating	37	44	44	45	170	45	44	179
Overhead	8	8	8	8	32	8	8	32
Other	54	-	-	-	54	-	-	-
Ebitda (\$mm)								
Deprec., Deplet., & Amort.	40	41	42	42	164	41	41	165
Ebit								
Interest	10	29	30	36	105	38	33	137
Ebt								
Income Tax	12	12	12	12	48	12	12	48
Net Income (\$mm)								
Income Tax	(2)	17	18	24	57	26	21	89
Income Tax	(1)	6	6	8	20	9	7	31
Net Income (\$mm)	(1)	11	12	15	37	17	13	58
Shares (millions)								
Shares (millions)	47	47	47	47	47	47	47	47
Per share (\$)								
Per share (\$)	(0.03)	0.23	0.25	0.33	0.79	0.37	0.29	1.24

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.