

NON-GAAP FINANCIAL MEASURES

Adjusted Net (Loss) Earnings

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

	Three Months Ended March 31,	
	2014 ⁽¹⁾	2013 ⁽²⁾
Net loss	\$ (21,007)	\$ (67,948)
Change in valuation allowance on deferred tax assets associated with net loss and adjusting items	-	24,585
Employee-related asset disposition costs, net of tax	721	4,263
Rig lease buyout/stacking costs, net of tax	5,184	1,940
Loss on debt extinguishment, net of tax	-	16,107
Write-off of debt issuance costs	3,323	-
Loss on asset disposition	794	-
Unrealized losses on derivative instruments, net of tax	8,391	24,481
Adjusted net (loss) earnings	<u>\$ (2,594)</u>	<u>\$ 3,428</u>
Earnings attributable to participating securities	-	(97)
Adjusted net (loss) earnings for diluted (loss) earnings per share	<u>\$ (2,594)</u>	<u>\$ 3,331</u>
Weighted average number of diluted shares outstanding	<u>116,838</u>	<u>115,655</u>
Adjusted diluted (loss) earnings per share	<u>\$ (0.02)</u>	<u>\$ 0.03</u>

(1) The tax rate used for the three months ended March 31, 2014 was 0%

(2) The tax rate used for the three months ended March 31, 2013 was 36.12%

Adjusted EBITDA

In addition to reporting net loss as defined under GAAP, Forest also presents adjusted net earnings before interest, income taxes, depreciation, depletion, amortization, and certain other items (adjusted EBITDA), which is a non-GAAP performance measure. Adjusted EBITDA consists of net loss after adjustment for those items shown in the table below. Adjusted EBITDA does not represent, and should not be considered an alternative to, GAAP measurements such as net loss (its most comparable GAAP financial measure), and Forest's

calculations thereof may not be comparable to similarly titled measures reported by other companies. By eliminating the items shown below, Forest believes the measure is useful in evaluating its fundamental core operating performance. Forest also believes that adjusted EBITDA is useful to investors because similar measures are frequently used by securities analysts, investors, and other interested parties in their evaluation of companies in the oil and gas industry. Forest's management uses adjusted EBITDA to manage its business, including in preparing its annual operating budget and financial projections. Forest's management does not view adjusted EBITDA in isolation and also uses other measurements, such as net loss and revenues, to measure operating performance. The following table provides a reconciliation of net loss, the most directly comparable GAAP measure, to adjusted EBITDA for the periods presented (in thousands):

	Three Months Ended	
	March 31,	
	2014	2013
Net loss	\$ (21,007)	\$ (67,948)
Income tax (benefit) expense	(1,214)	337
Interest expense	16,011	36,128
Depreciation, depletion, and amortization	21,415	48,543
Unrealized losses on derivative instruments, net	8,391	38,311
Stock-based compensation	794	3,647
Accretion of asset retirement obligations	513	1,244
Loss on asset disposition, net	794	-
Write-off of debt issuance costs	3,323	-
Employee-related asset disposition costs	579	5,821
Loss on debt extinguishment	-	25,223
Rig lease buyout/stacking costs	5,184	3,038
Adjusted EBITDA ⁽¹⁾	<u>\$ 34,783</u>	<u>\$ 94,344</u>

(1) The decrease in adjusted EBITDA was primarily due to oil and natural gas property divestitures completed during 2013.

Adjusted Discretionary Cash Flow

In addition to reporting net cash provided by operating activities as defined under GAAP, Forest also presents adjusted discretionary cash flow, which is a non-GAAP liquidity measure. Adjusted discretionary cash flow consists of net cash provided by operating activities after adjustment for those items shown in the table below. This measure does not represent, and should not be considered an alternative to, GAAP measurements such as net cash provided by operating activities (its most comparable GAAP financial measure), and Forest's calculations thereof may not be comparable to similarly titled measures reported by other companies. Forest's management uses adjusted discretionary cash flow as a measure of liquidity and believes it provides useful information to investors because it assesses cash flow from operations before changes in operating assets and liabilities, which fluctuate due to the timing of collections of receivables and the settlements of liabilities, and other items. Forest's management uses adjusted discretionary cash flow to manage its business, including in preparing its annual operating budget and financial projections. This measure does not represent the residual cash flow available for discretionary expenditures. Forest's management does not view adjusted discretionary cash flow in isolation and also uses other measurements, such as net cash provided by operating activities, to measure operating performance. The following table provides a reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to adjusted discretionary cash flow for the periods presented (in thousands):

	Three Months Ended March 31,	
	2014	2013
Net cash provided by operating activities	\$ 8,846	\$ 34,322
Changes in operating assets and liabilities:		
Accounts receivable	(135)	(265)
Other current assets	1,764	1,109
Accounts payable and accrued liabilities	11,533	14,697
Accrued interest and other	(10,541)	53
Employee-related asset disposition costs ⁽¹⁾	579	5,821
Rig lease buyout/stacking costs ⁽¹⁾	8,794	
Adjusted discretionary cash flow ⁽²⁾	<u>\$ 20,840</u>	<u>\$ 55,737</u>

(1) *The employee-related asset disposition costs and rig lease buyout/stacking costs are non-recurring cash-settled items. Including the effect of these items, adjusted discretionary cash flow would have been \$11 million and \$50 million for the three months ended March 31, 2014 and 2013, respectively.*

(2) *The decrease in adjusted discretionary cash flow was primarily due to oil and natural gas property divestitures completed during 2013.*

Net Debt

In addition to reporting total debt as defined under GAAP, Forest also presents net debt, which is a non-GAAP debt measure. Net debt consists of the principal amount of debt adjusted for cash and cash equivalents at the end of the period. Forest's management uses net debt to assess Forest's indebtedness.

The following table sets forth the components of net debt (in thousands):

	March 31, 2014		December 31, 2013	
	Principal	Book ⁽¹⁾	Principal	Book ⁽¹⁾
Credit facility	\$ -	\$ -	\$ -	\$ -
7 1/4% Senior notes due 2019	577,914	578,084	577,914	578,092
7 1/2% Senior notes due 2020	222,087	222,087	222,087	222,087
Total debt	800,001	800,171	800,001	800,179
Less: cash and cash equivalents	48,328	48,328	66,192	66,192
Net debt	<u>\$ 751,673</u>	<u>\$ 751,843</u>	<u>\$ 733,809</u>	<u>\$ 733,987</u>

(1) *Book amounts include the principal amount of debt adjusted for unamortized premiums on the issuance of certain senior notes of \$0.2 million at March 31, 2014 and December 31, 2013.*