

MARINER ENERGY INC

Form S-4/A

January 25, 2006

**Table of Contents**

As filed with the Securities and Exchange Commission on January 25, 2006

Registration No. 333-129096

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 2  
to  
Form S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Mariner Energy, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**1311**

*(Primary Standard Industrial  
Classification Code Number)*

**86-0460233**

*(I.R.S. Employer  
Identification No.)*

**2101 CityWest Blvd., Bldg. 4, Suite 900  
Houston, Texas 77042  
(713) 954-5500**

*(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)*

**Teresa Bushman**

**Vice President and General Counsel**

**Mariner Energy, Inc.**

**2101 CityWest Blvd., Bldg. 4, Suite 900  
Houston, Texas 77042  
(713) 954-5505**

*(Name, address, including zip code, and telephone number,  
including area code, of agent for service)*

**Copies to:**

**Kelly B. Rose  
Baker Botts L.L.P.  
910 Louisiana  
One Shell Plaza  
Houston, Texas 77002  
(713) 229-1234**

**Cyrus D. Marter IV  
Forest Oil Corporation  
707 Seventeenth Street  
Suite 3600  
Denver, CO 80202  
(303) 812-1400**

**Alan P. Baden  
Shelley A. Barber  
Vinson & Elkins L.L.P.  
666 Fifth Avenue, 26th Floor  
New York, NY 10103-0040  
(212) 237-0000**

**Approximate date of commencement of proposed sale of the securities to the public:** As soon as practicable after this registration statement becomes effective and upon consummation of the merger described in the enclosed proxy statement/ prospectus-information statement.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

**The information in this proxy statement/prospectus-information statement is not complete and may be changed. Mariner Energy, Inc. may not distribute or issue the shares of Mariner Energy, Inc. common stock being registered pursuant to this registration statement until the registration statement filed with the Securities and Exchange Commission is effective. This proxy statement/prospectus-information statement is not an offer to distribute these securities and Mariner Energy, Inc. is not soliciting offers to receive these securities in any state where such offer or distribution is not permitted.**

**SUBJECT TO COMPLETION DATED JANUARY 25, 2006**

Houston, Texas  
, 2006

Fellow Stockholder:

We invite you to attend the annual meeting of stockholders of Mariner Energy, Inc. to be held on \_\_\_\_\_, \_\_\_\_\_, 2006 at 10:00 a.m., Central Standard Time, at \_\_\_\_\_, Houston, Texas. At the meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement entered into among Mariner, Forest Oil Corporation, Forest Energy Resources, Inc. and MEI Sub, Inc., to consider and vote upon a proposal to amend Mariner's certificate of incorporation to increase its authorized shares of stock, to consider and vote upon a proposed amendment and restatement of Mariner's stock incentive plan, to elect one director to serve until the annual meeting of stockholders in 2009 and to elect two directors to serve until the annual meeting of stockholders in 2007.

If the merger agreement is adopted and the merger consummated, Forest Energy Resources will become a wholly owned subsidiary of Mariner, and Mariner will be a publicly traded company. Mariner has applied to list its common stock on the New York Stock Exchange. Each Forest shareholder will be entitled to receive one share of common stock of Mariner in exchange for each share of Forest Energy Resources common stock they own. Mariner stockholders will not receive consideration in the merger.

We believe that this transaction will increase Mariner's scale and balance its portfolio in the Gulf of Mexico, provide a strong financial platform for our exploration and development efforts, and enlarge our stockholder base for greater liquidity. **There are, however, risks associated with the proposed transaction, some of which are described under Risk Factors beginning on page 23 of the accompanying proxy statement/prospectus-information statement.**

**The Mariner board of directors has determined that the merger is fair to and in the best interests of Mariner and its stockholders, and that the merger agreement is advisable. The Mariner board of directors has unanimously approved the merger agreement and recommends that the Mariner stockholders vote *for* the adoption of the merger agreement.**

In order to consummate the merger, Mariner's certificate of incorporation must be amended to increase the number of shares of stock Mariner is authorized to issue. Mariner proposes to increase its authorized shares to 200 million, of which 180 million will be shares of common stock and 20 million will be shares of preferred stock, subject to the completion of the merger. The merger cannot be completed unless Mariner's authorized shares are increased. **The Mariner board of directors has unanimously approved the amendment to the certificate of incorporation, and recommends that the Mariner stockholders vote *for* the amendment.**

Mariner also proposes to amend and restate its stock incentive plan to, among other things, add 4.5 million shares of common stock, or approximately 5% of its outstanding shares following the completion of the merger, to the plan, subject to the completion of the merger. **The Mariner board of directors has unanimously approved the amended and restated stock incentive plan, and recommends that the Mariner stockholders vote *for* the amended and restated plan.**

In considering the recommendations of the Mariner board of directors, stockholders of Mariner should be aware that members of the Mariner board of directors and executive officers of Mariner have agreements and arrangements that provide them with interests in the merger that differ from, or are in addition to, those of Mariner stockholders. Please read *The Mariner Annual Meeting Interests of Certain Persons in the Merger* beginning on page 38 of the accompanying proxy statement/prospectus-information statement.

All stockholders are invited to attend the meeting. **Your participation at the meeting, in person or in proxy, is important.** Even if you only own a few shares, we want your shares to be represented at the meeting. The merger cannot be completed without the approval of the holders of a majority of the outstanding shares of common stock of Mariner. Whether or not you expect to attend the meeting in person, please complete, sign, date and promptly return the enclosed proxy card in the enclosed postage-prepaid envelope. Stockholders of record also have the option of voting via the Internet or by telephone. Specific instructions on how to vote via the Internet or by telephone are included on the proxy card. Each proxy is revocable and will not affect your right to vote in person if you attend the meeting.

The proxy statement/ prospectus-information statement that accompanies this letter contains detailed information about the proposed merger and the other proposals, and we urge you to read it carefully. **In particular, you should read the Risk Factors section beginning on page 23 for a description of various risks you should consider in evaluating the proposed merger.**

Thank you and we look forward to seeing you at the meeting.

Sincerely yours,

/s/ Scott D. Josey

Scott D. Josey

*Chairman, Chief Executive Officer and President*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the new shares of Mariner common stock to be issued in the merger or determined that this proxy statement/ prospectus-information statement is accurate or complete. Any representation to the contrary is a criminal offense.**

This proxy statement/ prospectus-information statement is dated \_\_\_\_\_, 2006, and is first being mailed to stockholders on or about \_\_\_\_\_, 2006.

---

**Table of Contents**

Denver, Colorado  
, 2006

To the Shareholders of Forest Oil Corporation:

On September 12, 2005, we announced that we would spin-off to our shareholders our offshore Gulf of Mexico operations, and that the Gulf of Mexico operations would immediately thereafter be acquired in a merger transaction by Mariner Energy, Inc. After the spin-off and merger, Mariner will be a separately traded public company that will own and operate the combination of Mariner's business and our Gulf of Mexico operations.

As a result of the transaction, in addition to retaining all of your shares of Forest common stock, you will receive approximately 0.8 shares of Mariner common stock for each Forest share you own on the record date of the transaction. You will not be required to pay for the shares of Mariner common stock that you receive. Forest shareholders will receive approximately 58% of the common stock of Mariner on a pro forma basis. Mariner has applied to list its common stock on the New York Stock Exchange.

This transaction represents a significant strategic step that we believe will sharpen Forest's focus on its onshore businesses and will provide operational clarity. While we believe the spin-off will also allow Forest shareholders to benefit from the success and upside potential of Mariner, there are risks that are described under Risk Factors beginning on page 23 of the accompanying proxy statement/ prospectus-information statement.

Forest's board of directors has determined that the spin-off of the Gulf of Mexico operations and the combination of these operations with Mariner are advisable and in the best interests of Forest and its shareholders, and has approved the proposed transaction. **You need not take any action to participate in the spin-off or the merger. No vote of Forest shareholders is required in connection with this transaction. Following the completion of the merger, you will receive information explaining how to obtain your shares of Mariner common stock.**

The following document constitutes an information statement of Forest relating to the spin-off and contains important information describing the terms of the spin-off, the merger, Forest, Mariner, the Forest Gulf of Mexico operations and the combined businesses. We encourage you to read it carefully.

We look forward to completing the spin-off and merger and to the exciting opportunities this transaction presents for our shareholders.

Sincerely,

/s/ H. Craig Clark

H. Craig Clark  
*President and Chief Executive Officer*

---

**Table of Contents**

Houston, Texas  
, 2006

**Notice of Annual Meeting of Stockholders**

To the Stockholders of Mariner Energy, Inc.

The annual meeting of holders of common stock of Mariner Energy, Inc. will be held on \_\_\_\_\_, 2006 at 10:00 a.m., Central Standard Time, at \_\_\_\_\_, Houston, Texas

to consider and vote upon the adoption of the Agreement and Plan of Merger, dated as of September 9, 2005, among Forest Oil Corporation, Forest Energy Resources, Inc., Mariner Energy, Inc. and MEI Sub, Inc., subject to the approval of the amendment to Mariner's certificate of incorporation described below,

to consider and vote upon a proposed amendment to Mariner's Second Amended and Restated Certificate of Incorporation to increase the number of authorized shares of stock from 90 million to 200 million, subject to the completion of the merger,

to consider and vote upon the proposed amendment and restatement of the Mariner Energy, Inc. Stock Incentive Plan,

to elect one director to serve until the annual meeting of stockholders in 2009,

to elect two directors to serve until the annual meeting of stockholders in 2007,

to grant to the proxyholders the authority to vote in their discretion with respect to the approval of any proposal to postpone or adjourn the annual meeting to a later date to solicit additional proxies in favor of the other proposals, if there are not sufficient votes for approval of the other proposals at the annual meeting, and

to transact any other business that may properly come before the annual meeting.

The board of directors of Mariner has determined that owners of record of Mariner's common stock at the close of business on \_\_\_\_\_, 2006 are entitled to notice of, and have the right to vote at, the Mariner annual meeting and any reconvened meeting following any adjournment or postponement of the meeting.

**The Mariner board of directors has determined that the merger is fair to and in the best interests of Mariner and its stockholders, and that the merger agreement is advisable. The Mariner board of directors has unanimously approved the merger agreement and the other proposals and recommends that the Mariner stockholders vote *for* the adoption of the merger agreement and the other proposals.**

In considering the recommendations of the Mariner board of directors, stockholders of Mariner should be aware that members of the Mariner board of directors and executive officers of Mariner have agreements and arrangements that provide them with interests in the merger that differ from, or are in addition to, those of Mariner stockholders. Please read "The Mariner Annual Meeting - Interests of Certain Persons in the Merger" beginning on page 38 of the accompanying proxy statement/prospectus-information statement.

By Order of the Board of Directors  
of Mariner Energy, Inc.

/s/ Teresa Bushman

Teresa Bushman  
*Vice President and General Counsel*

**Your Vote is Important.**

**Whether or Not You Plan to Attend the Annual Meeting, Please Complete, Sign, Date and Return Your Proxy Card**

---



**Table of Contents**

**PROXY STATEMENT/ PROSPECTUS-INFORMATION STATEMENT  
Table of Contents**

<u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>	1
<u>SUMMARY</u>	8
<u>The Companies</u>	8
<u>Conditions to the Completion of the Merger</u>	11
<u>Termination of the Merger Agreement</u>	12
<u>Termination Fee and Expenses</u>	12
<u>Certificate of Incorporation and By-Laws</u>	13
<u>Financing Arrangements Relating to the Spin-Off and the Merger</u>	13
<u>Ancillary Agreements</u>	13
<u>Regulatory Matters</u>	13
<u>SUMMARY SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA</u>	14
<u>Sources of Information</u>	14
<u>How We Prepared the Unaudited Pro Forma Combined Condensed Financial Information</u>	14
<u>Summary Historical Consolidated Financial Data of Mariner</u>	15
<u>Summary Selected Consolidated Statements of Revenues and Direct Operating Expenses of the Forest Gulf of Mexico Operations</u>	18
<u>Summary Selected Unaudited Pro Forma Combined Condensed Financial Information</u>	20
<u>Comparative Per Share Data</u>	21
<u>Comparative Stock Price and Dividends</u>	22
<u>RISK FACTORS</u>	23
<u>Risks Related to the Spin-Off and the Merger</u>	23
<u>Risks Related to the Combined Operations After the Merger</u>	25
<u>Risks Related to our Common Stock After the Merger</u>	33
<u>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS</u>	35
<u>THE MARINER ANNUAL MEETING</u>	36
<u>Purpose, Time and Place</u>	36
<u>Recommendation of the Mariner Board of Directors</u>	36
<u>Record Date; Stock Entitled to Vote; Quorum</u>	36
<u>Votes Required</u>	37
<u>Voting by Proxy</u>	37
<u>Interests of Certain Persons in the Merger</u>	38
<u>Stock Ownership of Directors and Executive Officers</u>	39
<u>Appraisal and Dissenters' Rights</u>	39
<u>THE SPIN-OFF AND MERGER</u>	40
<u>Background of the Merger</u>	40
<u>Reasons for the Merger; Recommendation of the Mariner Board of Directors</u>	48
<u>Certain Financial Projections</u>	49
<u>Opinion of Mariner's Financial Advisor</u>	52
<u>The Spin-Off</u>	60
<u>Stock Exchange Listing</u>	61
<u>Certificate of Incorporation and By-Laws</u>	61
<u>Material United States Federal Tax Consequences of the Spin-Off and the Merger</u>	61

**Table of Contents**

<u>Federal Securities Laws Consequences of the Merger</u>	68
<u>Accounting Treatment</u>	69
<u>Regulatory Matters</u>	69
<u>Appraisal and Dissenters' Rights</u>	69
<b><u>STRENGTHS AND STRATEGIES OF MARINER FOLLOWING THE MERGER</u></b>	70
<b><u>THE MERGER AGREEMENT</u></b>	73
<u>The Merger</u>	73
<u>Representations and Warranties</u>	74
<u>Covenants</u>	76
<u>Additional Covenants</u>	81
<u>Conditions to the Completion of the Merger</u>	82
<u>Termination of the Merger Agreement</u>	84
<u>Amendments and Waiver</u>	86
<b><u>THE DISTRIBUTION AGREEMENT</u></b>	87
<u>Summary of the Transactions</u>	87
<u>Contribution of the Forest Gulf of Mexico Assets and Assumption of Liabilities</u>	87
<u>Spin-off</u>	88
<u>Representations and Warranties</u>	88
<u>Indemnification</u>	88
<u>Conditions to the Spin-off</u>	89
<b><u>ANCILLARY AGREEMENTS</u></b>	90
<u>Tax Sharing Agreement</u>	90
<u>Employee Benefits Agreement</u>	91
<u>Transition Services Agreement</u>	92
<b><u>FINANCING ARRANGEMENTS RELATING TO THE SPIN-OFF AND THE MERGER</u></b>	93
<b><u>UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION</u></b>	95
<b><u>SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA FOR MARINER</u></b>	103
<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u></b>	
<b><u>AND RESULTS OF OPERATIONS OF MARINER</u></b>	106
<u>Overview</u>	106
<u>Critical Accounting Policies and Estimates</u>	112
<u>Results of Operations</u>	114
<u>Liquidity and Capital Resources</u>	119
<u>Contractual Commitments</u>	125
<u>Off-Balance Sheet Arrangements</u>	126
<u>Recent Accounting Pronouncements</u>	126
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	127
<b><u>MARINER</u></b>	128
<u>Significant Properties</u>	129
<u>Estimated Proved Reserves</u>	132
<u>Production</u>	134
<u>Productive Wells</u>	134
<u>Acreage</u>	135
<u>Drilling Activity</u>	135
<u>Property Dispositions</u>	136

**Table of Contents**

<u>Marketing and Customers</u>	136
<u>Title to Properties</u>	136
<u>Competition</u>	136
<u>Royalty Relief</u>	137
<u>Regulation</u>	138
<u>Employees</u>	141
<u>Legal Proceedings</u>	141
<u>Insurance Matters</u>	142
<u>Enron Related Matters</u>	142
<u>SELECTED CONSOLIDATED STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES OF THE FOREST GULF OF MEXICO OPERATIONS</u>	144
<u>MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE FOREST GULF OF MEXICO OPERATIONS</u>	145
<u>THE FOREST GULF OF MEXICO OPERATIONS</u>	150
<u>FOREST OIL CORPORATION</u>	158
<u>MANAGEMENT OF MARINER</u>	159
<u>Directors and Executive Officers</u>	159
<u>Board of Directors</u>	161
<u>Committees of the Board</u>	162
<u>Compensation Committee Interlocks and Insider Participation</u>	162
<u>Director Compensation</u>	162
<u>Indemnification</u>	163
<u>Executive Compensation</u>	163
<u>Employment Agreements and Other Arrangements</u>	163
<u>Overriding Royalty Arrangements</u>	164
<u>Equity Participation Plan</u>	165
<u>PROPOSAL TO AMEND AND RESTATE MARINER STOCK INCENTIVE PLAN</u>	167
<u>ELECTION OF DIRECTORS OF MARINER</u>	171
<u>MARINER SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	174
<u>DESCRIPTION OF MARINER CAPITAL STOCK</u>	175
<u>Common Stock</u>	175
<u>Liability and Indemnification of Officers and Directors</u>	175
<u>Preferred Stock</u>	175
<u>Anti-Takeover Effects of Provisions of Delaware Law, Our Certificate of Incorporation and Bylaws</u>	176
<u>Transfer Agent and Registrar</u>	178
<u>COMPARISON OF STOCKHOLDER RIGHTS</u>	179
<u>EXPERTS</u>	182
<u>LEGAL MATTERS</u>	182
<u>SUBMISSION OF FUTURE STOCKHOLDER PROPOSALS</u>	182
<u>GLOSSARY OF OIL AND NATURAL GAS TERMS</u>	183
<u>WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION BY REFERENCE</u>	185
<u>ANNEX A</u>	
<u>Agreement of Plan and Merger</u>	A-1
<u>ANNEX B</u>	



**Table of Contents**

<u>ANNEX C</u>	
<u>Distribution Agreement</u>	C-1
<u>ANNEX D</u>	
<u>Tax Sharing Agreement</u>	D-1
<u>ANNEX E</u>	
<u>Proposed Amendment to Second Amended and Restated Certificate of Incorporation of Mariner Energy, Inc.</u>	E-1
<u>ANNEX F</u>	
<u>Report of Ryder Scott Company, L.P., Independent Petroleum Engineers</u>	F-1
<u>ANNEX G</u>	
<u>Mariner Energy, Inc. Amended and Restated Stock Incentive Plan</u>	G-1
<u>Amendment No.6 to Waiver and Agreement</u>	
<u>Consent of Deloitte &amp; Touche LLP</u>	
<u>Consent of KPMG LLP</u>	
<u>Form of Proxy Card</u>	

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

*These questions and answers, together with the section titled Summary immediately following this section, provide a summary of the material terms of the spin-off and the merger and the other proposals to be acted upon at the annual meeting. To better understand the proposed merger and the other proposals, you should read this entire proxy statement/prospectus-information statement carefully, as well as those additional documents to which we refer you.*

*This proxy statement/prospectus-information statement is:*

*a proxy statement of Mariner for use in the solicitation of proxies for Mariner's annual meeting of stockholders;*

*a prospectus of Mariner relating to the issuance of shares of Mariner common stock in connection with the merger; and*

*an information statement of Forest relating to the spin-off of the Forest Gulf of Mexico operations to the shareholders of Forest.*

*For an explanation of oil and gas abbreviations and terms used in this proxy statement/prospectus-information statement, see Glossary of Oil and Natural Gas Terms on page 183.*

*In this proxy statement/prospectus-information statement:*

*The terms we, us, our and like terms, and the term Mariner, refer to Mariner Energy, Inc.;*

*MEI Sub refers to MEI Sub, Inc.;*

*Forest refers to Forest Oil Corporation;*

*Forest Energy Resources refers to Forest Energy Resources, Inc.; and*

*Forest Gulf of Mexico operations refers to the offshore Gulf of Mexico operations conducted by Forest that have been contributed to Forest Energy Resources and the shares of which will be spun-off to Forest shareholders.*

**Q: Please briefly describe the proposed merger and related transactions.**

A: Forest has transferred and contributed the assets and certain liabilities associated with its offshore Gulf of Mexico operations to Forest Energy Resources, a newly formed subsidiary of Forest. Immediately prior to the merger, Forest will distribute all of the outstanding shares of Forest Energy Resources to Forest shareholders on a pro rata basis. Forest Energy Resources will then merge with a newly formed subsidiary of Mariner, and become a new wholly owned subsidiary of Mariner. When the merger is complete, approximately 58% of the Mariner common stock will be held by shareholders of Forest and approximately 42% of Mariner common stock will be held by the pre-merger stockholders of Mariner, each on a pro forma basis.

Following the merger, Mariner will:

be an independent public company;

own both the Mariner operations and the Forest Gulf of Mexico operations; and

have total assets of approximately \$2.1 billion and total debt of approximately \$279.0 million on a pro forma combined basis, assuming the spin-off and the merger occurred on September 30, 2005.

**Q: What are Mariner stockholders being asked to vote upon?**

A: Mariner stockholders are being asked to adopt the merger agreement entered into among Forest, Forest Energy Resources, Mariner and MEI Sub, Inc., subject to the approval of the proposed amendment to Mariner's certificate of incorporation;



**Table of Contents**

approve the proposed amendment to Mariner's certificate of incorporation to increase the number of authorized shares of stock from 90 million to 200 million, subject to completion of the merger;

approve the proposed amendment and restatement of Mariner's stock incentive plan;

to elect one director to serve until the annual meeting of stockholders of Mariner in 2009;

to elect two directors to serve until the annual meeting of stockholders of Mariner in 2007; and

approve the proposed granting of authority to the proxyholders to vote in their discretion on a motion to adjourn or postpone the meeting.

**Q: What changes to Mariner's stock incentive plan am I being asked to approve?**

A: You are being asked to approve an amendment and restatement of the plan whereby 4.5 million shares of common stock would be added to the plan, the plan would be extended to October 12, 2015 and the number of shares subject to stock options or shares of restricted stock issuable under the plan to any individual would be limited to 2.85 million, subject to the completion of the merger.

**Q: Why am I being asked to grant to the proxy holders the authority to vote in their discretion on a motion to adjourn or postpone the meeting?**

A: We may determine to adjourn or postpone the meeting, for example, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement.

**Q: What will Forest shareholders receive in the merger?**

A: If the merger is completed, each Forest shareholder will ultimately receive shares of Mariner common stock. As a result of the spin-off, Forest shareholders will initially receive shares of Forest Energy Resources, which will then be converted in the merger into the right to receive shares of Mariner. After the merger, Forest shareholders will be entitled to receive approximately 0.8 shares of Mariner for each Forest share that they own. Forest shareholders will not be required to pay for the shares of Forest Energy Resources distributed in the spin-off transaction or the shares of Mariner issued in the merger. Shareholders will receive cash in lieu of any fractional shares of Mariner common stock. All shares of Forest Energy Resources common stock distributed in the spin-off and Mariner common stock issued in the merger will be issued in book-entry form, meaning that, although Forest shareholders will own the shares, they will not be issued physical share certificates.

**Q: What will Mariner stockholders receive in the merger?**

A: Mariner stockholders will keep the shares of Mariner common stock they currently own, but will not receive any additional shares in the merger.

**Q: Does the Mariner board of directors support the merger and the other proposals?**

A: Yes. The Mariner board of directors has determined that the merger is fair to and in the best interests of Mariner and its stockholders, and that the merger agreement is advisable. **The Mariner board of directors has unanimously approved the merger agreement and the other proposals and recommends that the Mariner stockholders vote for the adoption of the merger agreement and the other proposals.** A more detailed description of the background and reasons for the merger is set forth under "The Spin-Off and Merger" beginning on page 40.



**Q: Do the directors and executive officers of Mariner have interests in the merger that are different from mine?**

A: When considering the recommendations of the Mariner board of directors, you should be aware that the directors and executive officers of Mariner have interests and arrangements that may be different from your interests as stockholders, including:

arrangements regarding the appointment of directors and officers of Mariner following the merger; and

arrangements whereby the executive officers of Mariner will receive a cash payment of \$1,000 each in exchange for the waiver of certain rights under their employment agreements, including the automatic

2

---

**Table of Contents**

vesting or acceleration of restricted stock and options upon the completion of the merger and the right to receive a lump sum cash payment if the officer voluntarily terminates employment without good reason within nine months following the completion of the merger.

At the close of business on January 20, 2006, directors and executive officers of Mariner and their affiliates as a group beneficially owned and were entitled to vote approximately 3.7 million shares of Mariner common stock (including restricted stock subject to vesting), representing approximately 10.4% of the shares of Mariner common stock outstanding on that date. All of the directors and executive officers of Mariner who are entitled to vote at the meeting have indicated that they intend to vote their shares of Mariner common stock in favor of adoption of the merger agreement.

**Q: What factors did the Mariner board of directors consider in reaching its decision on the merger?**

A: In reaching its decision on the merger, the Mariner board of directors considered a number of factors, including the following among others:

the increased size of the combined company could reduce volatility and allow it to participate in larger scale drilling projects and acquisition opportunities;

the merger would be expected to increase Mariner's estimated proved reserves and undeveloped acreage;

the merger could generate increased visibility in the capital markets and trading liquidity for the combined company;

the merger would increase the number of Mariner's producing fields, thereby reducing Mariner's dependence on a concentrated number of properties;

the merger would be consummated only if approved by the holders of a majority of the Mariner common stock; and

the merger is structured as a tax-free reorganization for U.S. federal income tax purposes and, accordingly, would not be taxable either to Mariner or its stockholders.

The Mariner board of directors also identified and considered some risks and potential disadvantages associated with the merger, including, among others, the following:

the risk that there may be difficulties in combining the business of Mariner and the Forest Gulf of Mexico operations;

the risk that the potential benefits sought in the merger might not be fully realized;

the risk that the proved undeveloped, probable and possible reserves of the Forest Gulf of Mexico operations may never be converted to proved developed reserves; and

the fact that, in order to preserve the tax-free treatment of the spin-off, Mariner would be required to abide by restrictions that could reduce its ability to engage in certain business transactions.

In the judgment of the Mariner board of directors, the potential benefits of the merger outweigh the risks and the potential disadvantages.

**Q: Did Mariner's financial advisor render its opinion with respect to the fairness from a financial point of view of the exchange ratio in the merger?**

A: Yes. Lehman Brothers Inc., Mariner's financial advisor, has delivered to Mariner's board of directors a written opinion that, as of September 9, 2005, based upon and subject to the factors and assumptions set forth in the

opinion, the exchange ratio in the merger was fair from a financial point of view to Mariner. This opinion is attached as Annex B to this proxy statement/prospectus-information statement.

**Q: Are there risks that Mariner stockholders should consider in deciding whether to vote on the merger?**

A: Yes. Mariner stockholders should read the Risk Factors beginning on page 23 for a description of various risks Mariner stockholders should carefully consider in evaluating the proposed merger.

3

---

**Table of Contents**

**Q: Can Mariner stockholders dissent and require appraisal of their shares of Mariner common stock?**

A: No. Mariner stockholders are not entitled to dissenters' rights or appraisal rights in connection with the merger.

**Q: Why does Mariner want to increase the number of authorized Mariner shares?**

A: Mariner's certificate of incorporation currently does not authorize a sufficient number of shares of common stock to complete the merger. Mariner currently is authorized to issue 70 million shares of Mariner common stock and 20 million shares of Mariner preferred stock. As of January 20, 2006, approximately 35.6 million shares of Mariner common stock were issued and outstanding. Under the terms of the merger agreement, Mariner must issue approximately 50.6 million shares (representing approximately 0.8 shares of Mariner common stock for each share of Forest common stock) of common stock in the merger, which would result in approximately 86 million shares of Mariner common stock outstanding. **Therefore, the number of authorized shares of Mariner common stock must be increased in order to complete the merger.**

**Q: What vote is required to adopt the merger agreement and the other proposals?**

A: For the merger to occur, the holders of a majority of the outstanding Mariner common stock must adopt the merger agreement and approve the amendment to the certificate of incorporation. The amendment to Mariner's stock incentive plan must be approved by a majority of votes cast by stockholders present in person or by proxy, a quorum being present. Director nominees receiving a plurality of all votes cast at the meeting will be elected to Mariner's board of directors. Mariner stockholders will have one vote for each share of Mariner common stock they own. On \_\_\_\_\_, 2006, the record date for Mariner's annual meeting, \_\_\_\_\_ shares of Mariner common stock were issued and outstanding and entitled to vote at the meeting. The approval of Forest shareholders is not required for the spin-off or the merger.

**Q: Where will Mariner's common stock be listed?**

A: We have applied to list Mariner's common stock on the New York Stock Exchange.

**Q: Who will be the executive officers of Mariner?**

A: The current executive officers of Mariner will remain in their current positions following the merger.

**Q: Who will be the directors of Mariner?**

A: If the merger is completed, Mariner's board will consist of seven members, five of whom will be the current directors of Mariner, and two of whom will be mutually agreed between Mariner and Forest prior to the completion of the merger. The Chairman of the Mariner board will be Mr. Scott D. Josey, the current Chairman, Chief Executive Officer and President of Mariner.

**Q: Who are the new directors of Mariner, as mutually agreed by Forest and Mariner?**

A: The two Mariner directors to be mutually agreed by Forest and Mariner pursuant to the terms of the merger agreement have not yet been designated. We will update this proxy statement/prospectus-information statement when information with respect to the new directors becomes available.

**Q: When do you expect to complete the spin-off and the merger?**

A: If the merger agreement and the proposed amendment to the certificate of incorporation are adopted and approved by the stockholders of Mariner, then Mariner, Forest, Forest Energy Resources and MEI Sub expect to complete the spin-off and the merger as soon as possible after the satisfaction (or waiver, where permissible) of the other conditions to the spin-off and the merger. We currently anticipate that the merger will be completed during the first calendar quarter of 2006.

**Q: Who is entitled to vote at the meeting of Mariner stockholders?**

A: Holders of Mariner common stock of record at the close of business on \_\_\_\_\_, 2006.

4

---

**Table of Contents**

**Q: What should Mariner stockholders do now?**

A: You should mail your signed and dated proxy card(s) in the enclosed envelope or vote via telephone or via the Internet by following the instructions on your proxy card(s) as soon as possible so that your shares of Mariner common stock will be represented and voted at the meeting.

**Q: Do Mariner stockholders need to send in their share certificate(s)?**

A: **No. Mariner stockholders should not send in their share certificate(s).** Mariner stockholders will not exchange their share certificates in connection with the merger; only shareholders of Forest will do so.

**Q: If I am not going to attend the meeting, should I return my proxy card(s)?**

A: Yes. Returning your proxy card(s) ensures that your shares of Mariner common stock will be represented at the meeting, even if you are unable to or do not attend.

**Q: How do I vote my shares of Mariner common stock if they are held in the name of a bank, broker or other fiduciary?**

A: Your bank, broker or other fiduciary will vote your shares of Mariner common stock with respect to the merger only if you provide written instructions to them on how to vote, so it is important that you provide them with instructions. If you do not provide them with instructions, they will not be authorized to vote with respect to the merger or the other proposals. If you wish to vote in person at the meeting and hold your shares of Mariner common stock in the name of a bank, broker or other fiduciary, you must contact your bank, broker or other fiduciary and request a legal proxy. You must bring this legal proxy to the meeting in order to vote in person. Shares of Mariner common stock held by a broker, bank or other fiduciary that are not voted because the customer has not provided instructions to the broker, bank or other fiduciary (referred to as a broker non-vote ) will have the same effect as a vote against the proposals.

**Q: Can I change my vote after I mail my proxy card(s)?**

A: Yes. If you are a record holder of Mariner common stock, you can change your vote by:  
completing, signing and dating a new proxy card and returning it by mail so that it is received prior to the meeting;

voting via telephone or via the Internet by following the instructions provided on your proxy card;

sending a written notice to The Continental Stock Transfer & Trust Company that is received prior to the meeting stating that you revoke your proxy; or

attending the meeting and voting in person or by legal proxy, if appropriate.

Internet and telephone voters may use the same procedure to revoke or change their votes as they used to cast their original votes. If your shares of Mariner common stock are held in the name of a bank, broker or other fiduciary and you have directed such person(s) to vote your shares of Mariner common stock, you should instruct such person(s) to change your vote or obtain a legal proxy to do so yourself. Telephone and Internet voting will close at 8:00 p.m. Eastern time on the day before the meeting. Thereafter, voting (including revocation of proxies) can be made by mail or facsimile received prior to the meeting, or in person at the meeting.

**Q: What if I do not vote, or abstain from voting, or do not instruct my broker to vote my shares of Mariner common stock?**

A: If you do not vote, it will have the same effect as a vote against the merger and the proposal to amend Mariner's certificate of incorporation. Shares that are not voted will not count for purposes of calculating a quorum, which is necessary to have a valid meeting of stockholders. If a quorum of stockholders is not present in person or by proxy at the meeting, no vote will be taken on the merger and the other proposals. Shares that are not voted have the effect of reducing the number of shares required to approve the proposal to amend and restate Mariner's stock incentive plan and to elect directors, which require the affirmative vote of a majority of a quorum, but do not have the effect of reducing the number of shares required to adopt the merger agreement and to approve the proposed amendment to Mariner's certificate of

**Table of Contents**

incorporation, both of which require the affirmative vote of a majority of Mariner's outstanding shares. Abstentions and broker non-votes also will have the effect of votes against the merger and the proposal to amend Mariner's certificate of incorporation. **If you sign your proxy card but do not indicate how you want to vote, your shares of Mariner common stock will be voted for the merger and the other proposals.**

**Q: What factors did the Forest board of directors consider in reaching its decision on the spin-off and merger?**

A: In reaching its decision on the spin-off and the merger, the Forest board of directors considered a number of factors, including the following among others:  
the transaction creates two highly focused and valuable enterprises for Forest's shareholders, Forest and Mariner;

the merger of the Forest Gulf of Mexico operations with the Mariner business creates a high quality, well positioned Gulf of Mexico independent with an excellent track record and growth outlook;

following the spin-off, Forest will be a highly-focused onshore resource company with an acquire and exploit strategy and a portfolio of long-life, concentrated assets in high quality basins that provide a foundation for sustainable growth;

the determination to execute a tax-free transaction designed to increase the value of Forest's Gulf of Mexico assets; and

the determination that a spin-off followed by a merger transaction represents a better alternative for Forest's shareholders than any other type of transaction considered, providing optionality and returning value directly to Forest's shareholders.

The Forest board of directors also considered some risks and potential disadvantages associated with the spin-off and merger, including the following among others:

the lack of a liquid trading market and established market value for the Mariner shares;

the risk that there may be difficulties in combining the business of Mariner and the Forest Gulf of Mexico operations;

the risk that the potential benefits sought in the merger might not be fully realized; and

the risk that the proved undeveloped, probable and possible reserves of the Mariner business may never be converted to proved developed reserves.

In the judgment of the Forest board of directors, the potential benefits of the spin-off and the merger outweigh the risks and the potential disadvantages.

**Q: Do Forest shareholders need to send in any share certificates?**

A: No. If the merger is completed, Forest shareholders will exchange their shares of Forest Energy Resources for share certificates representing Mariner common stock. Forest shareholders who are entitled to receive shares of Forest Energy Resources (i.e., shareholders of record on the record date for the distribution) will be mailed book entry statements evidencing their shares of Forest Energy Resources. The exchange of Forest Energy Resources and Mariner shares will be effected through book-entry, without the exchange of physical share certificates.



**Q: Has Forest set a record date for the distribution of Forest Energy Resources shares in the spin-off?**

A: No. Forest will publicly announce the record date when it has been determined.

**Q: Can Forest shareholders dissent and require appraisal of their shares of Forest Energy Resources common stock?**

A: No. Forest shareholders are not entitled to dissenters' rights or appraisal rights in respect of the Forest Energy Resources stock they receive in the merger.

6

---

**Table of Contents**

**Q: What should Forest shareholders do now?**

A: Forest shareholders should carefully read this proxy statement/prospectus-information statement, which contains important information about the spin-off, the merger, Mariner, the Forest Gulf of Mexico operations and the combined businesses. Forest shareholders are not required to take any action to approve the spin-off or the merger. As described above, if the merger is completed, shares of Forest Energy Resources will be converted into shares of Mariner common stock.

**Q: Who can answer my questions?**

A: If Mariner stockholders have any questions regarding the meeting or need assistance in voting their shares of Mariner common stock, please contact our transfer agent:

The Continental Stock Transfer & Trust Company  
17 Battery Place, 8th Floor  
New York, New York 10004  
Facsimile: (212) 509-5152  
Telephone: (212) 616-7610

All other questions from Mariner stockholders should be directed to:

Mariner Energy, Inc.  
Attention: Investor Relations  
*Until February 3, 2006:*  
2101 CityWest Blvd., Bldg. 4, Suite 900  
Houston, Texas 77042  
Facsimile: (713) 954-5555  
Telephone: (713) 954-5500

*After February 3, 2006:*  
One BriarLake Plaza, Suite 2000  
2000 West Sam Houston Parkway South  
Houston, Texas 77042  
Facsimile: (713) 954-5555  
Telephone: (713) 954-5500

All other questions from Forest shareholders should be directed to:

Forest Oil Corporation  
Attention: Investor Relations  
707 17th Street, Suite 3600  
Denver, Colorado 80202  
Facsimile: (303) 812-1510  
Telephone: (303) 812-1400

**Table of Contents**

**SUMMARY**

*This summary, together with the section titled **Questions and Answers About the Merger** immediately preceding this summary, provides a summary of the material terms of the spin-off and the merger and the other proposals to be acted upon at the meeting. To better understand the proposed merger and the other proposals, you should read this entire proxy statement/prospectus-information statement carefully, as well as those additional documents to which we refer you. We have included page references at various points in this summary to direct you to a more detailed description of the topics presented.*

**The Companies**

***Mariner Energy, Inc.***

*Until February 3, 2006:*

2101 CityWest Blvd., Bldg. 4, Suite 900

Houston, Texas 77042

(713) 954-5500

(713) 954-5500

*After February 3, 2006:*

One BriarLake Plaza, Suite 2000

2000 West Sam Houston Parkway South

Houston, Texas 77042

Facsimile: (713) 954-5555

Telephone: (713) 954-5500

Mariner Energy, Inc. is an independent oil and gas exploration, development and production company with principal operations in the Gulf of Mexico, both shelf and deepwater, and the Permian Basin in West Texas. As of December 31, 2004, Mariner had 237.5 Bcfe of estimated proved reserves, of which approximately 64% were natural gas and 36% were oil and condensate. As of December 31, 2004, the present value, discounted at 10% per annum, of estimated future net revenues from Mariner's estimated proved reserves, before income tax (PV10), was approximately \$668 million, and Mariner's standardized measure of discounted future net cash flows attributable to its estimated proved reserves was approximately \$494 million. Please see Mariner's Estimated Proved Reserves for a reconciliation of PV10 to the standardized measure of discounted future net cash flows. As of December 31, 2004, approximately 46% of Mariner's estimated proved reserves were classified as proved developed. For the year ended December 31, 2004, Mariner's total net production was 37.6 Bcfe. Of Mariner's estimated proved reserves, 48% are located in the Permian Basin in West Texas, 37% in the Gulf of Mexico deepwater and 15% on the Gulf of Mexico shelf as of December 31, 2004. In the three-year period ended December 31, 2004, Mariner deployed approximately \$337 million of capital on acquisitions, exploration and development while adding approximately 191 Bcfe of estimated proved reserves and producing approximately 111 Bcfe.

***MEI Sub, Inc.***

*c/o Mariner Energy, Inc.*

*Until February 3, 2006:*

2101 CityWest Blvd., Bldg. 4, Suite 900

Houston, Texas 77042

(713) 954-5500

(713) 954-5500

*After February 3, 2006:*

One BriarLake Plaza, Suite 2000

2000 West Sam Houston Parkway South

Houston, Texas 77042

Facsimile: (713) 954-5555

Telephone: (713) 954-5500



**Table of Contents**

MEI Sub, Inc. is a wholly owned subsidiary of Mariner. MEI Sub was organized on August 30, 2005 for the purposes of merging with Forest Energy Resources in the merger. It has not carried on any activities other than in connection with the merger agreement.

***Forest Oil Corporation***

707 17th Street, Suite 3600

Denver, Colorado 80202

Facsimile: (303) 812-1400

Forest is an independent oil and gas company engaged in the acquisition, exploration, development and production of natural gas and liquids in North America and selected international locations. Forest was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969. Forest operates from offices located in Denver, Colorado; Lafayette and Metairie, Louisiana; Anchorage, Alaska; and Calgary, Alberta, Canada.

***Forest Energy Resources, Inc.***

c/o Forest Oil Corporation

707 17th Street, Suite 3600

Denver, Colorado 80202

Facsimile: (303) 812-1400

Forest Energy Resources is a wholly owned subsidiary of Forest. Forest Energy Resources was formed in Delaware on August 18, 2005 for the purpose of completing the spin-off of the Forest Gulf of Mexico operations. As of December 31, 2004, the Forest Gulf of Mexico operations that have been contributed to Forest Energy Resources prior to the merger had 339.7 Bcfe of estimated proved reserves, of which approximately 79% were natural gas and 21% were oil and condensate. As of December 31, 2004, the PV10 of the Forest Gulf of Mexico operations was approximately \$1,222.2 million, and the standardized measure of discounted future net cash flows attributable to its estimated proved reserves was approximately \$925.8 million. Please see *The Forest Gulf of Mexico Operations Estimated Proved Reserves* for a reconciliation of PV10 to the standardized measure of discounted future net cash flows. As of December 31, 2004, approximately 76% of the Forest Gulf of Mexico operations' estimated proved reserves were classified as proved developed. For the year ended December 31, 2004, the Forest Gulf of Mexico operations' total net production was 81.1 Bcfe. In the three-year period ended December 31, 2004, the Forest Gulf of Mexico operations deployed approximately \$560 million of capital on acquisitions, exploration and development while adding approximately 182 Bcfe of estimated proved reserves and producing approximately 215 Bcfe.

**Table of Contents**

**Ownership Structure Before and After the Spin-off and Merger**

The following diagrams and accompanying descriptions serve to describe generally the transactions that will take place in connection with the spin-off and merger. For more information, please read The Spin-off and Merger.

**1. Current Corporate Ownership Structure**

Forest Energy Resources is a wholly owned subsidiary of Forest. MEI Sub is a wholly owned subsidiary of Mariner.

**2. The Contribution and Spin-Off**

Forest has contributed the assets and certain liabilities associated with its Gulf of Mexico operations to Forest Energy Resources. Forest will, immediately prior to the merger, distribute all of the shares of Forest Energy Resources to its shareholders on a pro rata basis.

**3. The Merger**

MEI Sub will merge with and into Forest Energy Resources, with Forest Energy Resources surviving as a wholly owned subsidiary of Mariner. Forest Energy Resources will be renamed Mariner Energy Resources, Inc. In conjunction with the merger, shares of Forest Energy Resources stock will automatically be converted into shares of Mariner stock.

**Table of Contents**

**4. Corporate Ownership Structure following the Spin-Off and Merger**

At the conclusion of the merger, Forest shareholders will own approximately 58% of Mariner and the stockholders of Mariner who owned shares prior to the merger will own the remaining 42% of Mariner.

**Material United States Federal Tax Consequences of the Spin-Off and the Merger (page 61)**

It is a condition to the completion of the spin-off that Forest receive an opinion from its tax counsel to the effect that the contribution and transfer of the assets and liabilities of the Forest Gulf of Mexico operations to Forest Energy Resources and the spin-off by Forest of all the shares of Forest Energy Resources common stock to the holders of Forest common stock generally will be treated as a tax-free transaction for U.S. federal income tax purposes. As a tax-free transaction for U.S. federal income tax purposes, the spin-off will be tax-free to Forest shareholders and will generally be tax-free to Forest.

It is a condition to the completion of the merger that Forest, Forest Energy Resources and Mariner receive opinions from their respective tax counsels to the effect that the merger will constitute a tax-free reorganization for U.S. federal income tax purposes. As a tax-free reorganization for U.S. federal income tax purposes, the merger will be tax-free to the stockholders of Mariner and tax-free to the shareholders of Forest, except for cash received in lieu of fractional shares of Mariner for shares of Forest Energy Resources.

**We encourage you to consult your own tax advisor for a full understanding of the tax consequences of the spin-off and/or the merger to you.**

**Conditions to the Completion of the Merger (page 82)**

The merger will be completed only if certain conditions, including the following, are satisfied (or waived in certain cases):

the adoption of the merger agreement by Mariner stockholders holding a majority of the Mariner common stock and the approval of the proposed amendment to Mariner's certificate of incorporation;

the absence of legal restrictions that would prevent the completion of the transactions;

the receipt by Forest, Mariner and Forest Energy Resources of an opinion from their respective counsel to the effect that the merger will be treated as a reorganization for federal income tax purposes;

the completion of the spin-off in accordance with the distribution agreement;

the receipt of material consents, approvals and authorizations of governmental authorities;

the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Act;

the SEC declaring effective the registration statements of Mariner relating to the shares of Mariner common stock to be issued in the merger and those shares held by its existing stockholders;

the representations and warranties contained in the merger agreement being materially true and correct, and the performance in all material respects by the parties of their covenants and other agreements in the merger agreement;

**Table of Contents**

the approval for listing on the New York Stock Exchange or Nasdaq of Mariner's common stock; and

Mariner and Forest receiving the consents required pursuant to their credit facilities (with Mariner or Forest Energy Resources having entered into a new or amended credit facility sufficient to operate the combined businesses), and Forest receiving any consents required from its bondholders.

On November 14, 2005, the waiting period under the Hart-Scott-Rodino Act with respect to the merger expired. On October 19, 2005, Forest received the consent required pursuant to its credit facility. As of January 20, 2006, no other conditions to closing have been satisfied. On December 16, 2005, Mariner received clearance from the New York Stock Exchange to file a listing application for its common stock, and on December 22, 2005 Mariner filed a listing application and other ancillary documents with the New York Stock Exchange. Mariner is currently negotiating the definitive documents for its new credit facility, which documents also will grant the consent required pursuant to its existing facility. Mariner and Forest are actively working to obtain necessary consents, approvals and authorizations from governmental authorities, including the Minerals Management Service.

Based on its current valuation of the Forest Gulf of Mexico operations and the current amount of distributions permitted by the covenants contained in the indentures governing Forest's outstanding bonds, Forest believes that no consents of its bondholders will be required for the spin-off and the merger. If Forest's belief that bondholder consents are not necessary remains unchanged as the merger closing approaches, it intends to waive conditions in the merger agreement and distribution agreement related to such consents.

Neither Mariner nor Forest currently believes that any other condition to closing is likely to be waived. Mariner and Forest will recirculate revised proxy materials and resolicit proxies if there are any material changes in the terms of the merger, including those that result from waivers of conditions to closing.

Pursuant to the terms of the merger agreement, the closing of the merger will occur as promptly as practicable, and in no event later than the second business day following the satisfaction or, if permissible, waiver of the conditions to closing set forth in the merger agreement, or at such other time as Mariner and Forest Energy Resources mutually agree.

**Termination of the Merger Agreement (page 84)**

Forest and Mariner may mutually agree to terminate the merger agreement without completing the merger. In addition, either party may terminate the merger agreement if:

the other party breaches its representations, warranties, covenants or agreements under the merger agreement so as to create a material adverse effect, and the breach has not been cured within 30 days after notice was given of such breach;

the parties do not complete the merger by March 31, 2006;

a governmental order prohibits the merger; or

Mariner does not receive the required approval of its stockholders.

In addition, Mariner may terminate the merger agreement if it receives a proposal to acquire Mariner that Mariner's board of directors determines in good faith to be more favorable to Mariner's stockholders than the merger. Forest may terminate the merger agreement if Mariner's board of directors withdraws or modifies its approval of the merger to Mariner's stockholders.

**Termination Fee and Expenses (page 85)**

Mariner must pay Forest a termination fee of \$25 million and out-of-pocket fees and expenses of up to \$5 million if Mariner terminates the merger agreement to accept an alternative proposal that Mariner's board of directors determines in good faith to be more favorable to Mariner's stockholders than the merger. In addition, Mariner must pay Forest a termination fee of \$25 million and reimbursement of out-of-pocket fees and expenses of up to \$5 million if the merger agreement is terminated for the other reasons set forth under "The Merger Agreement - Termination Fees and Expenses" on page 85.





**Table of Contents**

**Certificate of Incorporation and By-Laws (page 61)**

The proposed amendment to Mariner's certificate of incorporation is in the form attached as Annex E to this proxy statement/ prospectus-information statement. Following the merger, the certificate of incorporation and by-laws of Mariner would differ from the current certificate of incorporation and by-laws only with respect to the number of authorized shares of stock, which pursuant to the proposed amendment would be increased from 90 million to 200 million.

**Financing Arrangements Relating to the Spin-Off and the Merger (page 93)**

At the closing of the merger Mariner and Mariner Energy Resources expect to enter into a new \$500 million senior secured revolving credit facility, and Mariner will enter into an additional \$40 million senior secured letter of credit facility. The revolving credit facility will mature on the fourth anniversary of the closing, and the letter of credit facility will mature on the third anniversary of the closing. The outstanding principal balance of loans under the revolving credit facility may not exceed the borrowing base, which will be initially set at \$400 million. In addition, Forest Energy Resources expects to enter into a new senior term loan facility in connection with the spin-off, which facility is expected to be repaid with borrowings under Mariner's and Mariner Energy Resources' \$500 million revolving credit facility.

**Ancillary Agreements (page 90)**

In addition to the merger agreement and the distribution agreement, Forest, Forest Energy Resources and Mariner have entered into a tax sharing agreement relating to the allocation of certain tax liabilities. The tax sharing agreement is attached as Annex D to this proxy statement/ prospectus-information statement. See *Ancillary Agreements Tax Sharing Agreement* beginning on page 90. In addition, Forest and Forest Energy Resources have entered into an employee benefits agreement addressing certain benefits matters for former Forest employees who become employees of Forest Energy Resources in connection with the spin-off and the merger. See *Ancillary Agreements Employee Benefits Agreement* beginning on page 91. Finally, Forest and Forest Energy Resources have entered into a transition services agreement under which Forest will provide certain services to Forest Energy Resources for a limited period of time following the merger. See *Ancillary Agreements Transition Services Agreement* beginning on page 92.

**Regulatory Matters (page 69)**

None of the parties is aware of any other material governmental or regulatory approval required for the completion of the merger, other than the effectiveness of the registration statement of which this proxy statement/ prospectus-information statement is a part and the effectiveness of Mariner's registration statement on Form S-1 relating to the currently-outstanding shares of Mariner common stock, and compliance with applicable antitrust law (including the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) and the corporate law of the State of Delaware. On November 14, 2005, the waiting period under the Hart-Scott-Rodino Act with respect to the merger expired.

**Comparison of Stockholder Rights (page 179)**

Forest's shareholders, whose rights are currently governed by Forest's certificate of incorporation, by-laws and New York law, will, if the merger is completed, also become stockholders of Mariner and their rights will be governed by Mariner's certificate of incorporation, by-laws and Delaware law. Material differences exist in the terms of these documents and statutes which may affect the rights of stockholders of Mariner and Forest.

**Table of Contents**

**SUMMARY SELECTED HISTORICAL AND PRO FORMA FINANCIAL DATA**

**Sources of Information**

We are providing the following selected consolidated financial data of Mariner and selected consolidated financial data of the Forest Gulf of Mexico operations, to help you in your analysis of the financial aspects of the merger and related transactions. We derived this information from the audited and unaudited financial statements for Mariner and from the audited and unaudited statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations for the periods presented. You should read this information in conjunction with the financial information included elsewhere in this proxy statement/prospectus-information statement. See *Where You Can Find More Information; Incorporation by Reference* beginning on page 185, *Index to Financial Statements* on page F-1 and *Unaudited Pro Forma Combined Condensed Financial Information* beginning on page 95.

**How We Prepared the Unaudited Pro Forma Combined Condensed Financial Information**

The unaudited pro forma combined condensed financial information is presented to show you how Mariner might have looked if the Forest Gulf of Mexico operations had been an independent company and combined with Mariner for the periods presented. We prepared the pro forma financial information using the purchase method of accounting, with Mariner treated as the acquiror. See *The Spin-Off and Merger Accounting Treatment* beginning on page 69.

If the Forest Gulf of Mexico operations had been an independent company, and if Mariner and the Forest Gulf of Mexico operations had been combined in the past, they might have performed differently. You should not rely on the pro forma financial information as an indication of the financial position or results of operations that Mariner would have reported if the spin-off and merger had taken place earlier or of the future results that Mariner will achieve after the merger. See *Unaudited Pro Forma Combined Condensed Financial Information* beginning on page 95.

**Table of Contents****Summary Historical Consolidated Financial Data of Mariner**

The following table shows Mariner's summary historical consolidated financial data as of and for each of the four years ended December 31, 2003, the period from January 1, 2004 through March 2, 2004, the period from March 3, 2004 through December 31, 2004, the period from March 3, 2004 through September 30, 2004 and the nine-month period ended September 30, 2005. The summary historical consolidated financial data as of and for the four years ended December 31, 2003, the period from January 1, 2004 through March 2, 2004 and the period from March 3, 2004 through December 31, 2004 are derived from Mariner's audited financial statements included herein, and the summary historical consolidated financial data for the period from March 3, 2004 through September 30, 2004 and the nine-month period ended September 30, 2005 are derived from unaudited financial statements of Mariner. You should read the following data in connection with Management's Discussion and Analysis of Financial Condition and Results of Operations of Mariner and the consolidated financial statements included elsewhere in this proxy statement/prospectus-information statement, where there is additional disclosure regarding the information in the following table, including pro forma information regarding the merger. Mariner's historical results are not necessarily indicative of results to be expected in future periods.

On March 2, 2004, Mariner's former indirect parent, Mariner Energy LLC, merged with MEI Acquisitions Holdings, LLC, an affiliate of the private equity funds, Carlyle/Riverstone Global Energy and Power Fund II, L.P. and ACON Investments LLC. The financial information contained herein is presented in the style of Pre-2004 Merger activity (for all periods prior to March 2, 2004) and Post-2004 Merger activity (for the March 3, 2004 through December 31, 2004 period and the March 3, 2004 through September 30, 2004 period) to reflect the impact of the restatement of assets and liabilities to fair value as required by push-down purchase accounting at the March 2, 2004 merger date.

	Post-2004 Merger				Pre-2004 Merger			
	Period from March 3, 2004 through September 30, 2004	Period from March 3, 2004 through September 30, 2004	Period from March 3, 2004 through December 31, 2004	Period from January 1, 2004 through March 2, 2004	Year Ended December 31,			
	Nine Months Ended September 30, 2005	September 30, 2004	December 31, 2004	March 2, 2004	2003	2002	2001	2000

(In millions, except per share data)

<b>Statement of Operations Data:</b>								
Total revenues(1)	\$ 151.2	\$ 122.5	\$ 174.4	\$ 39.8	\$ 142.5	\$ 158.2	\$ 155.0	\$ 121.1
Lease operating expenses	20.2	15.1	21.4	4.1	24.7	26.1	20.1	17.2
Transportation expenses	1.7	3.7	1.9	1.1	6.3	10.5	12.0	7.8
Depreciation, depletion and amortization	43.4	37.4	54.3	10.6	48.3	70.8	63.5	56.8
Impairment of production equipment held for	0.5	1.0	1.0					

use									
Derivative settlement						3.2			
Impairment of Enron related receivables							3.2	29.5	
General and administrative expenses	26.7	6.2	7.6	1.1	8.1	7.7	9.3	6.5	
Operating income	58.7	59.1	88.2	22.9	51.9	39.9	20.6	32.8	
Interest income	0.7	0.2	0.2	0.1	0.8	0.4	0.7	0.1	
Interest expense	(5.4)	(4.4)	(6.0)		(7.0)	(10.3)	(8.9)	(11.0)	
Income before income taxes	54.0	54.9	82.4	23.0	45.7	30.0	12.4	21.9	
Provision for income taxes	(18.4)	(19.2)	(28.8)	(8.1)	(9.4)				
Income before cumulative effect of change in accounting method net of tax effects	35.6	35.7	53.6	14.9	36.3	30.0	12.4	21.9	
Income before cumulative effect per common share									
Basic	1.10	1.20	1.80	.50	1.22	1.01	.42	.74	
Diluted	1.07	1.20	1.80	.50	1.22	1.01	.42	.74	
Cumulative effect of changes in accounting method					1.9				
Net income	\$ 35.6	\$ 35.7	\$ 53.6	\$ 14.9	\$ 38.2	\$ 30.0	\$ 12.4	\$ 21.9	
Net income per common share									
Basic	1.10	1.20	1.80	.50	1.29	1.01	.42	.74	
Diluted	1.07	1.20	1.80	.50	1.29	1.01	.42	.74	
<b>Capital Expenditure and Disposal Data:</b>									
Exploration, including leasehold/seismic	\$ 23.6	\$ 35.7	\$ 40.4	\$ 7.5	\$ 31.6	\$ 40.4	\$ 66.3	\$ 46.7	
Development and other	106.8	50.2	93.2	7.8	51.7	65.7	98.2	61.4	
Proceeds from property conveyances					(121.6)	(52.3)	(90.5)	(29.0)	

Total capital  
expenditures net of  
proceeds from  
property  
conveyances

\$ 130.4	\$ 85.9	\$ 133.6	\$ 15.3	\$ (38.3)	\$ 53.8	\$ 74.0	\$ 79.1
----------	---------	----------	---------	-----------	---------	---------	---------

(1) Includes effects of hedging.

**Table of Contents**

	Post-2004 Merger		Pre-2004 Merger			
	September 30, 2005	December 31, 2004	2003	December 31,		2000
				2002	2001	
(In millions)						
<b>Balance Sheet Data:(1)</b>						
Property and equipment, net, full cost method	\$ 393.3	\$ 303.8	\$ 207.9	\$ 287.6	\$ 290.6	\$ 287.8
Total assets	502.2	376.0	312.1	360.2	363.9	335.4
Long-term debt, less current maturities	79.0	115.0		99.8	99.8	129.7
Stockholder s equity	178.6	133.9	218.2	170.1	180.1	141.9
Working capital (deficit)(2)	(30.2)	(18.7)	38.3	(24.4)	(19.6)	(15.4)

(1) Balance sheet data as of December 31, 2004 reflects purchase accounting adjustments to oil and gas properties, total assets and stockholder s equity resulting from the acquisition of our former indirect parent on March 2, 2004.

(2) Working capital (deficit) excludes current derivative assets and liabilities, deferred tax assets and restricted cash.

	Post-2004 Merger		Pre-2004 Merger		Pre-2004 Merger			
	Nine Months Ended September 30, 2005	Period from March 3, 2004 through September 30, 2004	Period from March 3, 2004 through December 31, 2004	Period from January 1, 2004 through March 2, 2004	Year Ended December 31,			
					2003	2002	2001	2000
(In millions)								
<b>Other Financial Data:</b>								
EBITDA(1)	\$ 102.7	\$ 97.5	\$ 143.5	\$ 33.4	\$ 100.3	\$ 113.9	\$ 113.6	\$ 89.6
Net cash provided by operating activities	135.4	96.8	135.9	20.3	103.5	60.3	113.5	63.9
Net cash (used) provided by investing activities	(142.1)	(85.9)	(133.6)	(15.3)	38.3	(53.8)	(74.0)	(79.1)
Net cash (used) provided by financing activities	8.7	(74.9)	64.9		(100.0)		(30.0)	17.4
<b>Reconciliation of Non-GAAP Measures:</b>								
EBITDA(1)	\$ 102.7	\$ 97.5	\$ 143.5	\$ 33.4	\$ 100.3	\$ 113.9	\$ 113.6	\$ 89.6
	25.1	9.7	6.9	(13.2)	21.8	(20.4)	7.5	(15.5)

## Changes in working capital

Non-cash hedge gain(2)	(3.6)	(5.1)	(7.9)		(2.0)	(23.2)		
Amortization/other	0.9	0.5	0.8			(0.1)	0.6	0.7
Stock compensation expense	17.6							
Net interest expense	(4.7)	(4.2)	(5.8)	0.1	(6.2)	(9.9)	(8.2)	(10.9)
Income tax expense	(2.6)	(1.6)	(1.6)		(10.4)			

## Net cash provided by operating activities

\$ 135.4	\$ 96.8	\$ 135.9	\$ 20.3	\$ 103.5	\$ 60.3	\$ 113.5	\$ 63.9
----------	---------	----------	---------	----------	---------	----------	---------

- (1) EBITDA means earnings before interest, income taxes, depreciation, depletion and amortization. For the nine months ended September 30, 2005, EBITDA includes \$17.6 million in non-cash stock compensation expense related to restricted stock and stock options granted in 2005. We believe that EBITDA is a widely accepted financial indicator that provides additional information about our ability to meet our future requirements for debt service, capital expenditures and working capital, but EBITDA should not be considered in isolation or as a substitute for net income, operating income, net cash provided by



**Table of Contents**

operating activities or any other measure of financial performance presented in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

- (2) In accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and No. 138, we de-designated our contracts effective December 2, 2001 after the counterparty (an affiliate of Enron Corp.) filed for bankruptcy and recognized all market value changes subsequent to such de-designation in our earnings. The value recorded up to the time of de-designation and included in Accumulated Other Comprehensive Income ( AOCI ), has reversed out of AOCI and into earnings as the original corresponding production, as hedged by the contracts, is produced. We have designated subsequent hedge contracts as cash flow hedges with gains and losses resulting from the transactions recorded at market value in AOCI, as appropriate, until recognized as operating income in our Statement of Operations as the physical production hedged by the contracts is delivered.

**Table of Contents****Summary Selected Consolidated Statements of Revenues and Direct Operating Expenses of the Forest Gulf of Mexico Operations**

The selected financial data for the Forest Gulf of Mexico operations for the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002 were derived from the historical records of Forest. You should read the following data in connection with Management's Discussion and Analysis of Financial Condition and Results of Operations of the Forest Gulf of Mexico Operations and the consolidated statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations included elsewhere in this proxy statement/prospectus-information statement. Complete financial and operating information related to the Forest Gulf of Mexico operations, including balance sheet and cash flow information, are not presented below because the Forest Gulf of Mexico operations were not maintained as a separate business unit, and therefore the assets, liabilities or indirect operating costs applicable to the operations were not segregated.

	Nine Months Ended September 30,		Years Ended December 31		
	2005	2004	2004	2003	2002
<b>(In millions, except production data)</b>					
<b>Statement of Operations Data:</b>					
Oil and natural gas revenues(1)	\$ 326.7	\$ 324.4	\$ 453.1	\$ 342.0	\$ 228.9
Direct Operating Expenses:					
Lease operating expenses	57.4	63.0	80.1	45.7	52.1
Transportation	2.5	1.4	2.2	2.7	3.8
Production taxes	1.9	1.2	1.5	1.5	1.0
Total direct operating expenses	61.8	65.6	83.8	49.9	56.9
Revenues in excess of direct operating expenses	\$ 264.9	\$ 258.8	\$ 369.3	\$ 292.1	\$ 172.0
<b>Summary Production Data:</b>					
Production Data:					
Natural gas (MMcf)	41,442	46,036	61,684	58,785	50,566
Oil and condensate (MBbls)	1,845	2,004	2,624	2,143	1,974
Natural gas liquids (MBbls)	628	186	606	2	6
Total (MMcfe)	56,280	59,176	81,064	71,655	62,446
Per day (MMcfe)	206	216	221	196	171
<b>Average realized sales price per unit:</b>					
Natural gas (\$/Mcf):					
Sales price received	\$ 7.14	\$ 6.02	\$ 6.30	\$ 5.41	\$ 3.39
Effects of hedging	(1.13)	(0.45)	(0.56)	(0.63)	0.17
Net sales price received	6.01	5.57	5.74	4.78	3.56

**Table of Contents**

	Nine Months Ended September 30,		Years Ended December 31		
	2005	2004	2004	2003	2002
<b>(In millions, except production data)</b>					
<b>Oil (\$/bbl):</b>					
Sales price received	\$ 51.97	\$ 38.13	\$ 40.06	\$ 30.19	\$ 24.85
Effects of hedging	(19.95)	(6.61)	(8.55)	(1.90)	
Net sales price received	32.02	31.52	31.51	28.29	24.85
<b>Natural gas liquids (\$/bbl):</b>					
Sales price received	\$ 29.54	\$ 25.40	\$ 27.28	\$ 19.00	\$ 12.33
<b>Average realized sales price per Mcfe (including effects of hedging) (\$/Mcfe)</b>	\$ 5.81	\$ 5.48	\$ 5.59	\$ 4.77	\$ 3.67
<b>Production costs per Mcfe:</b>					
Lease operating expenses	\$ 1.02	1.06	0.99	0.64	0.83
Transportation	\$ 0.04	0.02	0.03	0.04	0.06
Production taxes	\$ 0.03	0.02	0.02	0.02	0.02

(1) Includes effects of hedging.

**Table of Contents****Summary Selected Unaudited Pro Forma Combined Condensed Financial Information**

The following summary selected unaudited pro forma combined condensed financial information has been prepared to reflect the merger. This unaudited pro forma combined condensed financial information is based on the historical financial statements of Mariner and the historical statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations, all of which are included in this proxy statement/ prospectus-information statement, and the estimates and assumptions set forth in the Notes to the Unaudited Pro Forma Combined Condensed Financial Information of Mariner beginning on page 95. The unaudited pro forma combined condensed operating results give effect to the merger as if it had occurred on January 1, 2004. The unaudited pro forma combined condensed balance sheet gives effect to the merger as if it had occurred on September 30, 2005.

The unaudited pro forma combined condensed financial information is for illustrative purposes only. The financial results may have been different had the Forest Gulf of Mexico operations been an independent company and had the companies always been combined. You should not rely on the unaudited pro forma combined condensed financial information as being indicative of the historical results that would have been achieved had the merger occurred in the past or the future financial results that Mariner will achieve after the merger.

The merger will be accounted for using the purchase method of accounting, with Mariner treated as the acquiror. In addition, the purchase price allocation is preliminary and will be finalized following the closing of the merger. The final purchase price allocation will be determined after closing based on the actual fair value of current assets, current liabilities, indebtedness, long-term liabilities, proven and unproven oil and gas properties, identifiable intangible assets and unvested stock options that are outstanding at closing. We are continuing to evaluate all of these items; accordingly, the final purchase price may differ in material respects from that presented in the unaudited pro forma combined condensed balance sheet.

	<b>As of and for the Nine Months Ended September 30, 2005</b>	<b>For the Year Ended December 31, 2004</b>
<b>(In thousands, except per share and proved reserve data)</b>		
<b>OPERATING RESULTS:</b>		
Revenues	\$ 477,967	\$ 667,326
Net income	\$ 71,221	\$ 106,298
Earnings per share		
Basic	\$ 0.86	\$ 1.32
Diluted	\$ 0.85	\$ 1.32
Weighted average shares outstanding		
Basic	83,075	80,385
Diluted	83,950	80,385
<b>BALANCE SHEET DATA:</b>		
Total assets	\$ 2,118,526	
Total debt	\$ 279,000	
Stockholders equity	\$ 1,152,134	

<b>As of June 30, 2005</b>	<b>As of December 31, 2004</b>
--------------------------------	--

**ESTIMATED PROVED RESERVES:**

Oil (MBbls)*	29,261	25,905
Gas (MMcf)	423,352	421,741
Equivalent (MMcfe)	598,918	577,173
Proved developed percentage	63.9%	63.7%

\* Includes 3,285.6 MBbls of natural gas liquids.

**Table of Contents****Comparative Per Share Data**

The following table presents historical per share data of Mariner common stock and combined per share data of Mariner and the Forest Gulf of Mexico operations on an unaudited pro forma basis after giving effect to the spin-off and the merger. The merger will be accounted for using the purchase method of accounting, with Mariner treated as the acquiror. The combined pro forma per share data was derived from the Unaudited Pro Forma Combined Condensed Financial Information as presented beginning on page 95. The assumptions related to the preparation of the Unaudited Pro Forma Combined Condensed Financial Information are described beginning at page 95. The data presented below should be read in conjunction with the historical consolidated financial statements of Mariner and the historical statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations included elsewhere in this proxy statement/ prospectus-information statement.

The Mariner unaudited pro forma equivalent data was calculated with reference to the total number of shares of Mariner common stock expected to be outstanding after the merger, including the shares to be issued to Forest shareholders and the currently-outstanding shares of Mariner common stock.

The pro forma combined per share data may not be indicative of the operating results or financial position that would have occurred if the merger had been consummated at the beginning of the periods indicated, and may not be indicative of future operating results or financial position.

	<b>Mariner</b>	
	<b>Historical</b>	<b>Combined Pro Forma</b>
<b>Earnings (loss) per share</b>		
Nine months ended September 30, 2005(1)		
Basic	\$ 1.10	\$ 0.86
Diluted	\$ 1.07	\$ 0.85
Year ended December 31, 2004(2)		
Basic	\$ 2.30	\$ 1.32
Diluted	\$ 2.30	\$ 1.32
Book Value per share As of September 30, 2005(3)	\$ 5.01	\$ 13.36
Cash dividends declared per common share	\$	\$

- (1) Mariner's historical basic and diluted earnings per share calculation for the nine months ended September 30, 2005 assumes Mariner had 32,438,240 and 33,312,831 weighted average shares of common stock outstanding, respectively. Mariner's pro forma basic and diluted earnings per share calculation for the nine months ended September 30, 2005 assumes Mariner had 83,075,250 and 83,949,841 weighted average shares of common stock outstanding, respectively.
- (2) Mariner's historical basic and diluted earnings per share calculation for the year ended December 31, 2004 assumes Mariner had 29,748,130 and 29,748,130 weighted average shares of common stock outstanding, respectively. Mariner's pro forma basic and diluted earnings per share calculation for the year ended December 31, 2004 assumes Mariner had 80,385,140 and 80,385,140 weighted average shares of common stock outstanding, respectively.

- (3) Book value per share calculation assumes that Mariner had 35,615,400 shares of common stock outstanding and 86,252,410 combined pro forma shares of common stock outstanding as of September 30, 2005.

**Table of Contents**

**Comparative Stock Price and Dividends**

In March 2005, Mariner completed a private placement of 16,350,000 shares of its common stock to qualified institutional buyers, non-U.S. persons and accredited investors. There is no established public trading market for the shares of Mariner common stock, and it is not expected that a public trading market will be established until the completion of the merger. The shares of Mariner's common stock issued to qualified institutional buyers in connection with its March 2005 private equity placement are eligible for the PORTAL Market®.

Forest Energy Resources was incorporated as a wholly owned subsidiary of Forest in August 2005. There is no established public trading market for the shares of Forest Energy Resources common stock.

Mariner has not paid any cash dividends on its shares of common stock for the fiscal years 2003, 2004 or 2005, and it anticipates that it will not pay any dividends in 2006. Forest Energy Resources has not paid any cash dividends on its shares of common stock for the fiscal year 2005, and it anticipates that it will not pay any dividends in 2006. The payment of any dividends by Mariner prior to the merger is subject to the limitations included in the merger agreement and in its credit facility, and following the merger the payment of dividends by Mariner and Forest Energy Resources will be subject to restrictions included in their credit facilities.



**Table of Contents**

**RISK FACTORS**

*You should consider carefully the following risk factors, which we believe include all material risks associated with our business, the merger, and the offering of our common stock, together with all of the other information included in this prospectus, in determining whether to vote to adopt the merger agreement and the other proposals at the meeting. Realization of any of the following risks could have a material adverse effect on our business, financial condition, cash flows and results of operations. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.*

**Risks Related to the Spin-Off and the Merger**

***The market value of our common stock could decline if large amounts of our common stock are sold following the spin-off and merger.***

The market price of our common stock could decline as a result of sales of a large number of shares in the market after the completion of the spin-off and merger or the perception that these sales could occur. Immediately after the merger, Forest shareholders will hold, in the aggregate, approximately 58% of our common stock on a pro forma basis. Currently, Forest shareholders include index funds tied to various stock indices, and institutional investors subject to various investing guidelines. Because we may not be included in these indices at the time of the merger or may not meet the investing guidelines of some of these institutional investors, these index funds and institutional investors may decide to sell the Mariner common stock they receive in the merger. These sales may negatively affect the price of our common stock and also may make it more difficult for us to obtain additional capital by selling equity securities in the future at a time and at a price that we deem appropriate.

Historically, Forest has operated with properties in diverse geographic locations, including the Gulf Coast, the Western United States, Alaska, Canada and other international locations. In contrast, following the spin-off and merger, Mariner will operate as a stand-alone oil and gas exploration, development and production company with operations primarily in the Gulf of Mexico and in West Texas. Shareholders of Forest who chose to invest in a geographically diverse company may not wish to continue to invest in one that is less geographically diverse, such as Mariner. As a result, such shareholders may seek to sell the shares of our common stock received in the merger.

***The integration of the Forest Gulf of Mexico operations following the merger will be difficult, and will divert our management's attention away from our normal operations.***

There is a significant degree of difficulty and management involvement inherent in the process of integrating the Forest Gulf of Mexico operations. These difficulties include:

the challenge of integrating the Forest Gulf of Mexico operations while carrying on the ongoing operations of our business;

the challenge of managing a significantly larger company, with more than twice the PV10 of Mariner on a stand-alone basis;

faulty assumptions underlying our expectations;

the difficulty associated with coordinating geographically separate organizations;

the challenge of integrating the business cultures of the two companies;

attracting and retaining personnel associated with the Forest Gulf of Mexico operations following the merger; and

the challenge and cost of integrating the information technology systems of the two companies.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our



**Table of Contents**

business. If our senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer.

***If we fail to realize the anticipated benefits of the merger, stockholders may receive lower returns than they expect.***

The success of the merger will depend, in part, on our ability to realize the anticipated growth opportunities from combining the Forest Gulf of Mexico operations with Mariner. Even if we are able to successfully combine the two businesses, it may not be possible to realize the full benefits of the proved reserves, enhanced growth of production volume, cost savings from operating synergies and other benefits that we currently expect to result from the merger, or realize these benefits within the time frame that is currently expected. The benefits of the merger may be offset by operating losses relating to changes in commodity prices, or in oil and gas industry conditions, or by risks and uncertainties relating to the combined company's exploratory prospects, or an increase in operating or other costs or other difficulties. If we fail to realize the benefits we anticipate from the merger, stockholders may receive lower returns on our stock than they expect.

***We expect to incur significant charges relating to the integration plan that could materially and adversely affect our period-to-period results of operations following the merger.***

We are developing a plan to integrate the Forest Gulf of Mexico operations with our operations after the merger. Following the merger, we anticipate that from time to time we will incur charges to our earnings in connection with the integration. These charges will include expenses incurred in connection with relocating and retaining employees and increased professional and consulting costs. We also expect to incur significant expenses related to being a public company. We will not be able to quantify the exact amount of these charges or the period(s) in which they will be incurred until after the merger is completed. Some factors affecting the cost of the integration include the timing of the closing of the merger, the training of new employees, the amount of severance and other employee-related payments resulting from the merger, and the limited length of time during which transitional services are provided by Forest.

***The number of shares Forest shareholders will receive in the merger is not subject to adjustment based on the value of the Mariner or the Forest Gulf of Mexico operations. Accordingly, because this value may fluctuate, the market value of the Mariner common stock that Forest shareholders receive in the merger may not reflect the value of the individual companies at the time of the merger.***

Following the spin-off and the merger, the holders of Forest common stock will ultimately become entitled to receive approximately 0.8 shares of Mariner common stock for each Forest share they own. This ratio will not be adjusted for changes in the value of our company or the Forest Gulf of Mexico operations. If our value relative to the Forest Gulf of Mexico operations increases (or the value of the Forest Gulf of Mexico operations decreases relative to our value) prior to the completion of the merger, the market value of the Mariner common stock that Forest shareholders receive in the merger may not reflect the then-current relative values of the individual companies.

***Regulatory agencies may delay or impose conditions on approval of the spin-off and the merger, which may diminish the anticipated benefits of the merger.***

Completion of the spin-off and merger is conditioned upon the receipt of required government consents, approvals, orders and authorizations. While we intend to pursue vigorously all required governmental approvals and do not know of any reason why we would not be able to obtain the necessary approvals in a timely manner, the requirement to receive these approvals before the spin-off and merger could delay the completion of the spin-off and merger, possibly for a significant period of time after Mariner stockholders have approved the merger proposal at the meeting. In addition, these governmental agencies may attempt to condition their approval of the merger on the imposition of conditions that could have a material adverse effect on our operating results or the value of our common stock after the spin-off and merger are completed.

**Table of Contents**

Any delay in the completion of the spin-off and merger could diminish anticipated benefits of the spin-off and merger or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the transaction. Any uncertainty over the ability of the companies to complete the spin-off and merger could make it more difficult for us to retain key employees or to pursue business strategies. In addition, until the spin-off and merger are completed, the attention of our management may be diverted from ongoing business concerns and regular business responsibilities to the extent management is focused on matters relating to the transaction, such as obtaining regulatory approvals.

***In order to preserve the tax-free treatment of the spin-off, we will be required to abide by potentially significant restrictions which could limit our ability to undertake certain corporate actions (such as the issuance of our common shares or the undertaking of a change in control) that otherwise could be advantageous.***

The tax sharing agreement imposes ongoing restrictions on Forest and on us to ensure that applicable statutory requirements under the Internal Revenue Code and applicable Treasury regulations continue to be met so that the spin-off remains tax-free to Forest and its shareholders. As a result of these restrictions, our ability to engage in certain transactions, such as the redemption of our common stock, the issuance of equity securities and the utilization of our stock as currency in an acquisition, will be limited for a period of two years following the spin-off. Please see *The Spin-Off and Merger* Material United States Federal Tax Consequences of the Spin-Off and the Merger Material U.S. Tax Consequences of the Spin-Off.

If Forest or Mariner takes or permits an action to be taken (or omits to take an action) that causes the spin-off to become taxable, the relevant entity generally will be required to bear the cost of the resulting tax liability to the extent that the liability results from the actions or omissions of that entity. Please read *Ancillary Agreements* Tax Sharing Agreement. If the spin-off became taxable, Forest would be expected to recognize a substantial amount of income, which would result in a material amount of taxes. Any such taxes allocated to us would be expected to be material to us, and could cause our business, financial condition and operating results to suffer. These restrictions may reduce our ability to engage in certain business transactions that otherwise might be advantageous to us and our stockholders and could have a negative impact on our business and stockholder value.

***Some of our directors and executive officers have interests that are different from, or in addition to, the interests of our stockholders.***

When considering the recommendations of our board of directors, you should be aware that some of our directors and executive officers have interests and arrangements that may be different from your interests as stockholders, including:

arrangements regarding the appointment of directors and officers of Mariner following the merger; and

arrangements whereby our executive officers will receive a cash payment of \$1,000 each in exchange for the waiver of certain rights under their employment agreements, including the automatic vesting or acceleration of restricted stock and options upon the completion of the merger and the right to receive a lump sum cash payment if the officer voluntarily terminates employment without good reason within nine months following the completion of the merger.

See *Interests of Certain Persons in the Merger* beginning on page 38.

**Risks Related to the Combined Operations After the Merger**

***Oil and natural gas prices are volatile, and a decline in oil and natural gas prices would reduce our revenues, profitability and cash flow and impede our growth.***

Our revenues, profitability and cash flow depend substantially upon the prices and demand for oil and natural gas. The markets for these commodities are volatile and even relatively modest drops in prices can affect significantly our financial results and impede our growth. Oil and natural gas prices are currently at or near historical highs and may fluctuate and decline significantly in the near future. Prices for oil and natural

**Table of Contents**

gas fluctuate in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond our control, such as:

domestic and foreign supply of oil and natural gas;

price and quantity of foreign imports;

actions of the Organization of Petroleum Exporting Countries and other state-controlled oil companies relating to oil price and production controls;

level of consumer product demand;

domestic and foreign governmental regulations;

political conditions in or affecting other oil-producing and natural gas-producing countries, including the current conflicts in the Middle East and conditions in South America and Russia;

weather conditions;

technological advances affecting oil and natural gas consumption;

overall U.S. and global economic conditions; and

price and availability of alternative fuels.

Further, oil prices and natural gas prices do not necessarily fluctuate in direct relationship to each other. Because approximately 73% of our pro forma estimated proved reserves as of December 31, 2004 (including reserves of the Forest Gulf of Mexico operations) were natural gas reserves, our financial results are more sensitive to movements in natural gas prices. Lower oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. This may result in our having to make substantial downward adjustments to our estimated proved reserves and could have a material adverse effect on our financial condition and results of operations.

***Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will affect materially the quantities and present value of our reserves and the reserves of the Forest Gulf of Mexico operations, which may lower our bank borrowing base and reduce our access to capital.***

Estimating oil and natural gas reserves is complex and inherently imprecise. It requires interpretation of the available technical data and making many assumptions about future conditions, including price and other economic conditions. In preparing estimates we and Forest project production rates and timing of development expenditures. We and Forest also analyze the available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. This process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our and Forest's estimates, perhaps significantly. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control. At December 31, 2004, 36% of our pro forma proved reserves (including reserves of the Forest Gulf of Mexico operations) were proved undeveloped.

If the interpretations or assumptions we use in arriving at our estimates prove to be inaccurate, the amount of oil and natural gas that we ultimately recover may differ materially from the estimated quantities and net present value of

reserves shown in this proxy statement/ prospectus-information statement. See [Mariner Estimated Proved Reserves](#) for information about our oil and gas reserves and [The Forest Gulf of Mexico Operations Estimated Proved Reserves](#) for more information about the oil and gas reserves of the Forest Gulf of Mexico operations.

**Table of Contents**

***In estimating future net revenues from proved reserves, we and Forest assume that future prices and costs are fixed and apply a fixed discount factor. If these assumptions or discount factor are materially inaccurate, our revenues, profitability and cash flow could be materially less than our estimates.***

The present value of future net revenues from our proved reserves and the proved reserves of the Forest Gulf of Mexico operations referred to in this proxy statement/ prospectus-information statement is not necessarily the actual current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we and Forest base the estimated discounted future net cash flows from our proved reserves and the proved reserves of the Forest Gulf of Mexico operations on fixed prices and costs as of the date of the estimate. Actual future prices and costs fluctuate over time and may differ materially from those used in the present value estimate. In addition, discounted future net cash flows are estimated assuming that royalties to the MMS with respect to our affected offshore Gulf of Mexico properties will be paid or suspended for the life of the properties based upon oil and natural gas prices as of the date of the estimate. See *Mariner Royalty Relief*. Since actual future prices fluctuate over time, royalties may be required to be paid for various portions of the life of the properties and suspended for other portions of the life of the properties.

The timing of both the production and expenses from the development and production of oil and natural gas properties will affect both the timing of actual future net cash flows from our proved reserves and the proved reserves of the Forest Gulf of Mexico operations and their present value. In addition, the 10% discount factor that we and Forest use to calculate the net present value of future net cash flows for reporting purposes in accordance with the SEC's rules may not necessarily be the most appropriate discount factor. The effective interest rate at various times and the risks associated with our business or the oil and gas industry in general will affect the appropriateness of the 10% discount factor in arriving at an accurate net present value of future net cash flows.

***Unless we replace our oil and natural gas reserves, our reserves and production will decline.***

Our future oil and natural gas production depends on our success in finding or acquiring additional reserves. If we fail to replace reserves through drilling or acquisitions, our level of production and cash flows will be affected adversely. In general, production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our total proved reserves decline as reserves are produced unless we conduct other successful exploration and development activities or acquire properties containing proved reserves, or both. Our ability to make the necessary capital investment to maintain or expand our asset base of oil and natural gas reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. We may not be successful in exploring for, developing or acquiring additional reserves.

***Relatively short production periods or reserve life for Gulf of Mexico properties subjects us to higher reserve replacement needs and may impair our ability to replace production during periods of low oil and natural gas prices.***

Due to high production rates, production of reserves from reservoirs in the Gulf of Mexico generally declines more rapidly than from reservoirs in other producing regions. As a result, our reserve replacement needs from new prospects may be greater than those of other oil and gas companies. If the merger is consummated, the proportion of short-lived Gulf of Mexico properties relative to our total properties will increase substantially. Also, our revenues and return on capital will depend significantly on prices prevailing during these relatively short production periods. Our ability to slow or shut in production from producing wells during periods of low prices for oil and natural gas may be limited by reservoir characteristics or by our need to generate revenues to fund ongoing capital commitments or repay debt.

**Table of Contents**

***Any production problems related to our Gulf of Mexico properties could reduce our revenue, profitability and cash flow materially.***

A substantial portion of our exploration and production activities are located in the Gulf of Mexico. This concentration of activity makes us more vulnerable than some other industry participants to the risks associated with the Gulf of Mexico, including delays and increased costs relating to adverse weather conditions such as hurricanes, which are common in the Gulf of Mexico during certain times of the year, drilling rig and other oilfield services and compliance with environmental and other laws and regulations.

***Our exploration and development activities may not be commercially successful.***

Exploration activities involve numerous risks, including the risk that no commercially productive oil or natural gas reservoirs will be discovered. In addition, the future cost and timing of drilling, completing and producing wells is often uncertain. Furthermore, drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

unexpected drilling conditions;

pressure or irregularities in formations;

equipment failures or accidents;

adverse weather conditions, including hurricanes, which are common in the Gulf of Mexico during certain times of the year;

compliance with governmental regulations;

unavailability or high cost of drilling rigs, equipment or labor;

reductions in oil and natural gas prices; and

limitations in the market for oil and natural gas.

If any of these factors were to occur with respect to a particular project, we could lose all or a part of our investment in the project, or we could fail to realize the expected benefits from the project, either of which could materially and adversely affect our revenues and profitability.

***Our exploratory drilling projects are based in part on seismic data, which is costly and cannot ensure the commercial success of the project.***

Our decisions to purchase, explore, develop and exploit prospects or properties depend in part on data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often uncertain. Even when used and properly interpreted, 3-D seismic data and visualization techniques only assist geoscientists and geologists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know conclusively if hydrocarbons are present or producible economically. In addition, the use of 3-D seismic and other advanced technologies require greater predrilling expenditures than traditional drilling strategies. Because of these factors, we could incur losses as a result of exploratory drilling expenditures. Poor results from exploration activities could have a material adverse effect on our future cash flows, ability to replace reserves and results of operations.

***Oil and gas drilling and production involve many business and operating risks, any one of which could reduce our levels of production, cause substantial losses or prevent us from realizing profits.***

Our business is subject to all of the operating risks associated with drilling for and producing oil and natural gas, including:

fires;

explosions;



blow-outs and surface cratering;

28

---

**Table of Contents**

uncontrollable flows of underground natural gas, oil and formation water;

natural disasters;

pipe or cement failures;

casing collapses;

lost or damaged oilfield drilling and service tools;

abnormally pressured formations; and

environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If any of these events occurs, we could incur substantial losses as a result of injury or loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of our operations and repairs to resume operations.

***Our offshore operations involve special risks that could increase our cost of operations and adversely affect our ability to produce oil and gas.***

Offshore operations are subject to a variety of operating risks specific to the marine environment, such as capsizing, collisions and damage or loss from hurricanes or other adverse weather conditions. These conditions can cause substantial damage to facilities and interrupt production. As a result, we could incur substantial liabilities that could reduce or eliminate the funds available for exploration, development or leasehold acquisitions, or result in loss of equipment and properties. For more information on the impact of recent hurricanes on Mariner's operations and the Forest Gulf of Mexico operations, see Management's Discussion and Analysis of Financial Condition and Results of Operations of Mariner Recent Developments beginning on page 107 and Management's Discussion and Analysis of Financial Condition and Results of Operations of the Forest Gulf of Mexico Operations Recent Developments beginning on page 145.

Exploration for oil or natural gas in the deepwater of the Gulf of Mexico generally involves greater operational and financial risks than exploration on the shelf. Deepwater drilling generally requires more time and more advanced drilling technologies, involving a higher risk of technological failure and usually higher drilling costs. Our deepwater wells use subsea completion techniques with subsea trees tied back to host production facilities with flow lines. The installation of these subsea trees and flow lines requires substantial time and the use of advanced remote installation mechanics. These operations may encounter mechanical difficulties and equipment failures that could result in significant cost overruns. Furthermore, the deepwater operations generally lack the physical and oilfield service infrastructure present in the shallow waters of the Gulf of Mexico. As a result, a significant amount of time may elapse between a deepwater discovery and our marketing of the associated oil or natural gas, increasing both the financial and operational risk involved with these operations. Because of the lack and high cost of infrastructure, some reserve discoveries in the deepwater may never be produced economically.

***Our hedging transactions may not protect us adequately from fluctuations in oil and natural gas prices and may limit future potential gains from increases in commodity prices or result in losses.***

We enter into hedging arrangements from time to time to reduce our exposure to fluctuations in oil and natural gas prices and to achieve more predictable cash flow. These financial arrangements typically take the form of price swap contracts and costless collars. Hedging arrangements expose us to the risk of financial loss in some circumstances, including situations when the other party to the hedging contract defaults on its contract or production is less than expected. During periods of high commodity prices, hedging arrangements may limit significantly the extent to which we can realize financial gains from such higher prices. For example, in calendar year 2004, on a pro forma basis (including the Forest Gulf of Mexico operations), our hedging arrangements reduced the benefit we received from increases in the prices for oil and natural gas by approximately \$76.9 million. Although we currently maintain an active hedging program, we may choose not



**Table of Contents**

to engage in hedging transactions in the future. As a result, we may be affected adversely during periods of declining oil and natural gas prices.

***We will require additional capital to fund our future activities. If we fail to obtain additional capital, we may not be able to implement fully our business plan, which could lead to a decline in reserves.***

We depend on our ability to obtain financing beyond our cash flow from operations. Historically, we have financed our business plan and operations primarily with internally generated cash flow, bank borrowings, proceeds from the sale of oil and natural gas properties, entering into exploration arrangements with other parties, the issuance of public debt, privately raised equity and, prior to the bankruptcy of Enron Corp. (our indirect parent company until March 2, 2004), borrowings from Enron affiliates. In the future, we will require substantial capital to fund our business plan and operations. We expect to be required to meet our needs from our excess cash flow, debt financings and additional equity offerings (subject to certain federal tax limitations during the two-year period following the spin-off). Sufficient capital may not be available on acceptable terms or at all. If we cannot obtain additional capital resources, we may curtail our drilling, development and other activities or be forced to sell some of our assets on unfavorable terms.

The issuance of additional debt would require that a portion of our cash flow from operations be used for the payment of interest on our debt, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements, which could place us at a competitive disadvantage relative to other competitors. Additionally, if revenues decrease as a result of lower oil or natural gas prices, operating difficulties or declines in reserves, our ability to obtain the capital necessary to undertake or complete future exploration and development programs and to pursue other opportunities may be limited, which could result in a curtailment of our operations relating to exploration and development of our prospects, which in turn could result in a decline in our oil and natural gas reserves.

***Properties we acquire (including the Forest Gulf of Mexico properties) may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against such liabilities.***

Properties we acquire, including the Forest Gulf of Mexico properties, may not produce as expected, may be in an unexpected condition and may subject us to increased costs and liabilities, including environmental liabilities. The reviews we conduct of acquired properties prior to acquisition are not capable of identifying all potential adverse conditions. Generally, it is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, we will focus our review efforts on the higher value properties or properties with known adverse conditions and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems or permit a buyer to become sufficiently familiar with the properties to assess fully their condition, any deficiencies, and development potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken.

***Market conditions or transportation impediments may hinder our access to oil and natural gas markets or delay our production.***

Market conditions, the unavailability of satisfactory oil and natural gas transportation or the remote location of our drilling operations may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines or trucking and terminal facilities. In deepwater operations, the availability of a ready market depends on the proximity of and our ability to tie into existing production platforms owned or operated by others and the ability to negotiate commercially satisfactory arrangements with the owners or operators. We may be required to shut in wells or delay initial production for lack of a market or because of inadequacy or unavailability of pipeline or gathering system capacity. When that occurs, we are unable to realize revenue from those wells

**Table of Contents**

until the production can be tied to a gathering system. This can result in considerable delays from the initial discovery of a reservoir to the actual production of the oil and natural gas and realization of revenues.

***The unavailability or high cost of drilling rigs, equipment, supplies or personnel could affect adversely our ability to execute on a timely basis our exploration and development plans within budget, which could have a material adverse effect on our financial condition and results of operations.***

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or affect adversely our exploration and development operations, which could have a material adverse effect on our financial condition and results of operations. An increase in drilling activity in the U.S. or the Gulf of Mexico could increase the cost and decrease the availability of necessary drilling rigs, equipment, supplies and personnel.

***Competition in the oil and natural gas industry is intense, and many of our competitors have resources that are greater than ours giving them an advantage in evaluating and obtaining properties and prospects.***

We operate in a highly competitive environment for acquiring prospects and productive properties, marketing oil and natural gas and securing equipment and trained personnel. Many of our competitors are major and large independent oil and natural gas companies, and possess and employ financial, technical and personnel resources substantially greater than ours. Those companies may be able to develop and acquire more prospects and productive properties than our financial or personnel resources permit. Our ability to acquire additional prospects and discover reserves in the future will depend on our ability to evaluate and select suitable properties and consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. Larger competitors may be better able to withstand sustained periods of unsuccessful drilling and absorb the burden of changes in laws and regulations more easily than we can, which would adversely affect our competitive position. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

***Financial difficulties encountered by our farm-out partners or third-party operators could affect the exploration and development of our prospects adversely.***

From time to time, we enter into farm-out agreements to fund a portion of the exploration and development costs of our prospects. Moreover, other companies operate some of the other properties in which we have an ownership interest. Liquidity and cash flow problems encountered by our partners and co-owners of our properties may lead to a delay in the pace of drilling or project development that may be detrimental to a project.

In addition, our farm-out partners and working interest owners may be unwilling or unable to pay their share of the costs of projects as they become due. In the case of a farm-out partner, we may have to obtain alternative funding in order to complete the exploration and development of the prospects subject to the farm-out agreement. In the case of a working interest owner, we may be required to pay the working interest owner's share of the project costs. We cannot assure you that we would be able to obtain the capital necessary in order to fund either of these contingencies.

***We cannot control the drilling and development activities on properties we do not operate, and therefore we may not be in a position to control the timing of development efforts, the associated costs or the rate of production of the reserves.***

Other companies operate some of the properties in which we have an interest. As a result, we have a limited ability to exercise influence over operations for these properties or their associated costs. Our dependence on the operator and other working interest owners for these projects and our limited ability to influence operations and associated costs could materially adversely affect the realization of our targeted

**Table of Contents**

returns on capital in drilling or acquisition activities. The success and timing of drilling and development activities on properties operated by others therefore depend upon a number of factors that are outside of our control, including timing and amount of capital expenditures, the operator's expertise and financial resources, approval of other participants in drilling wells and selection of technology.

***Compliance with environmental and other government regulations could be costly and could affect production negatively.***

Exploration for and development, production and sale of oil and natural gas in the U.S. and the Gulf of Mexico are subject to extensive federal, state and local laws and regulations, including environmental and health and safety laws and regulations. We may be required to make large expenditures to comply with these environmental and other requirements. Matters subject to regulation include, among others, environmental assessment prior to development, discharge and emission permits for drilling and production operations, drilling bonds, and reports concerning operations and taxation.

Under these laws and regulations, and also common law causes of action, we could be liable for personal injuries, property damage, oil spills, discharge of pollutants and hazardous materials, remediation and clean-up costs and other environmental damages. Failure to comply with these laws and regulations or to obtain or comply with required permits may result in the suspension or termination of our operations and subject us to remedial obligations as well as administrative, civil and criminal penalties. Moreover, these laws and regulations could change in ways that substantially increase our costs. We cannot predict how agencies or courts will interpret existing laws and regulations, whether additional or more stringent laws and regulations will be adopted or the effect these interpretations and adoptions may have on our business or financial condition. For example, the Oil Pollution Act of 1990 (the OPA) imposes a variety of regulations on responsible parties related to the prevention of oil spills. The implementation of new, or the modification of existing, environmental laws or regulations promulgated pursuant to the OPA could have a material adverse impact on us. Further, Congress or the MMS could decide to limit exploratory drilling or natural gas production in additional areas of the Gulf of Mexico. Accordingly, any of these liabilities, penalties, suspensions, terminations or regulatory changes could have a material adverse effect on our financial condition and results of operations. See *Mariner Regulation* for more information on our regulatory and environmental matters.

***Our insurance may not protect us against our business and operating risks.***

We maintain insurance for some, but not all, of the potential risks and liabilities associated with our business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all.

Although we maintain insurance at levels we believe are appropriate and consistent with industry practice, we are not fully insured against all risks, including drilling and completion risks that are generally not recoverable from third parties or insurance. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our financial condition and results of operations. The impact of Hurricanes Katrina and Rita have resulted in escalating insurance costs and less favorable coverage terms.

**Table of Contents**

**Risks Related to our Common Stock After the Merger**

***An active market for our common stock may not develop and the market price for shares of our common stock may be highly volatile and could be subject to wide fluctuations after this offering.***

We are a private company, and there is no public market for our common stock. An active market for our common stock may not develop or may not be sustained after this offering. In addition, we cannot assure you as to the liquidity of any such market that may develop or the price that our stockholders may obtain for their shares of our common stock.

Even if an active trading market develops, the market price for shares of our common stock may be highly volatile and could be subject to wide fluctuations. Some of the factors that could negatively affect our share price include:

actual or anticipated downward revisions in our reserve estimates;

our operating results being less than anticipated;

reductions in oil and gas prices;

publication of unfavorable research reports about us or the exploration and production industry;

increases in market interest rates which may increase our cost of capital;

the enactment of more stringent laws or regulations applicable to our business, or unfavorable court rulings or enforcement or legal actions;

increases in royalties or taxes payable in the operation of our business;

a general decline in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

departures of key management personnel;

increases to our asset retirement obligations;

adverse actions taken by our stockholders;

negative speculation in the press or investment community; and

adverse general market and economic conditions.

***We do not anticipate paying any dividends on our common stock in the foreseeable future.***

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock. Our existing revolving credit facility restricts our ability to pay cash dividends on our common stock, and we may also enter into other credit agreements or other borrowing arrangements in the future that restrict our ability to declare or pay cash dividends on our common stock.

***Mariner stockholders will experience substantial and immediate dilution as a result of the merger, and may experience dilution of their ownership interests due to the future issuance of additional shares of our common stock, which could have an adverse effect on our stock price.***

If the merger is completed, the current owners of Mariner's common stock will experience substantial and immediate dilution from the issuance of shares of Mariner common stock to Forest shareholders, such that the Mariner stockholders will own approximately 42% of the Mariner common stock following the merger. Additionally, we may

in the future issue our previously authorized and unissued securities, resulting in the dilution of the ownership interests of our present stockholders. We are currently authorized to issue 70 million shares of common stock and 20 million shares of preferred stock with such designations, preferences and rights as determined by our board of directors. As a result of the proposed amendment to our certificate of incorporation, our authorized shares would be increased to 180 million shares of common stock and 20 million shares of preferred stock. Pursuant to the proposed addition of shares to our stock incentive



**Table of Contents**

plan, the maximum number of shares issuable under the plan would, if the proposal is approved, be increased to 6.5 million shares.

The potential issuance of such additional shares of common stock may create downward pressure on the trading price of our common stock. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for common stock (subject to certain federal tax limitations during the two-year period following the spin-off) in connection with the hiring of personnel, future acquisitions, future public offerings or private placements of our securities for capital raising purposes, or for other business purposes. Future sales of substantial amounts of our common stock, or the perception that sales could occur, could have a material adverse effect on the price of our common stock.

***Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock.***

The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock. The provisions in our certificate of incorporation and bylaws that could delay or prevent an unsolicited change in control of our company include a staggered board of directors, board authority to issue preferred stock, and advance notice provisions for director nominations or business to be considered at a stockholder meeting. In addition, Delaware law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. See Description of Mariner Capital Stock.

**Table of Contents**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

Various statements in this proxy statement/prospectus-information statement, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. Our forward-looking statements are generally accompanied by words such as estimate, project, predict, believe, expect, anticipate, potential, other words that convey the uncertainty of future events or outcomes. The forward-looking statements in this proxy statement/prospectus-information statement speak only as of the date of this proxy statement/prospectus-information statement; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations of the Forest Gulf of Mexico Operations, Management's Discussion and Analysis of Financial Condition and Results of Operations of Mariner and elsewhere in this proxy statement/prospectus-information statement. These risks, contingencies and uncertainties relate to, among other matters, the following:

the volatility of oil and natural gas prices;

discovery, estimation, development and replacement of oil and natural gas reserves;

cash flow, liquidity and financial position;

business strategy;

amount, nature and timing of capital expenditures, including future development costs;

availability and terms of capital;

timing and amount of future production of oil and natural gas;

availability of drilling and production equipment;

operating costs and other expenses;

prospect development and property acquisitions;

marketing of oil and natural gas;

competition in the oil and natural gas industry;

the impact of weather and the occurrence of natural disasters such as fires, floods and other catastrophic events and natural disasters;

governmental regulation of the oil and natural gas industry;

developments in oil-producing and natural gas-producing countries;

the contemplated transactions, including strategic plans, expectations and objectives for future operations, the completion of those transactions, and the realization of expected benefits from the transactions; and

disruption from the merger making it more difficult to manage Mariner's business.

**Table of Contents**

**THE MARINER ANNUAL MEETING**

**Purpose, Time and Place**

The Mariner annual meeting will be held on \_\_\_\_\_, \_\_\_\_\_, 2006 at 10:00 a.m., Central Standard Time, at \_\_\_\_\_, Houston, Texas \_\_\_\_\_. The purpose of the meeting is:

to consider and vote upon the adoption of the Agreement and Plan of Merger, dated as of September 9, 2005, among Forest, Forest Energy Resources, Mariner and MEI Sub, subject to the approval of the proposed amendment to Mariner's certificate of incorporation,

to consider and vote upon a proposed amendment to Mariner's Second Amended and Restated Certificate of Incorporation to increase the number of authorized shares of stock from 90 million shares to 200 million shares, subject to the completion of the merger,

to consider and vote upon the proposed amendment and restatement of the Mariner stock incentive plan,

to elect one director to serve until the annual meeting of stockholders of Mariner in 2009,

to elect two directors to serve until the annual meeting of stockholders of Mariner in 2007,

to approve the proposed granting of authority to the proxyholders to vote in their discretion on a motion to adjourn or postpone the meeting, and

to transact any other business that may properly come before the meeting.

We currently expect that no other matters will be considered at the meeting.

**Recommendation of the Mariner Board of Directors**

The Mariner board of directors has determined that the merger is fair to and in the best interests of Mariner and its stockholders, and that the merger agreement is advisable. **The Mariner board of directors has unanimously approved the merger agreement, the proposed amendment to the certificate of incorporation and the proposed amendment and restatement of the stock incentive plan, and recommends that the Mariner stockholders vote for the adoption of the merger agreement and the other proposals.**

In considering the recommendations of the Mariner board of directors, stockholders of Mariner should be aware that members of the Mariner board of directors and executive officers of Mariner have agreements and arrangements that provide them with interests in the merger that differ from, or are in addition to, those of Mariner stockholders.

Please read \_\_\_\_\_ Interests of Certain Persons in the Merger.

**Record Date; Stock Entitled to Vote; Quorum**

Stockholders of record of Mariner common stock at the close of business on \_\_\_\_\_, 2006, the record date for the Mariner meeting, are entitled to receive notice of, and have the right to vote at, the meeting and any reconvened meeting following any adjournment or postponement of the meeting. On the record date,

\_\_\_\_\_ shares of Mariner common stock were issued and outstanding and entitled to vote at the meeting.

Stockholders of record of shares of Mariner common stock on the record date are each entitled to one vote per share on the proposals.

A quorum of stockholders is necessary to have a valid meeting of stockholders. The holders of a majority of the stock issued and outstanding and entitled to vote at the meeting, present in person or represented by proxy, will constitute a quorum at the meeting. Shares that are not voted will not count for purposes of calculating a quorum.

Abstentions and broker non-votes count as present for establishing a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instructions from the beneficial

**Table of Contents**

owner of the shares and no instructions are given. We expect that, in the event that a quorum is not present at the meeting, the meeting will be adjourned or postponed to solicit additional proxies.

**Votes Required**

Adoption of the merger agreement and the approval of the proposed amendment to Mariner's certificate of incorporation will require the affirmative vote of the holders of a majority of the shares of Mariner common stock outstanding on the record date.

The proposal to amend and restate Mariner's stock incentive plan requires the affirmative vote of a majority of the shares of Mariner common stock represented in person or by proxy at the meeting. For purposes of the vote, abstentions will be counted and have the same effect as a vote against these proposals. In addition, failing to vote or to instruct your broker to vote will have the same effect as a vote against these proposals. Director nominees receiving a plurality of all votes cast at the meeting will be elected to Mariner's board of directors. Abstentions and broker non-votes have no effect on the election of directors.

Nonvoted shares have the effect of reducing the number of shares required to approve the proposal to amend and restate Mariner's stock incentive plan, and to elect directors, which require the affirmative vote of a majority of the shares of Mariner common stock represented in person or by proxy at the meeting, but do not have the effect of reducing the number of shares required to adopt the merger agreement and to approve the proposed amendment to Mariner's certificate of incorporation, both of which require the affirmative vote of a majority of Mariner's outstanding shares.

**Voting by Proxy**

***Submitting Proxies***

Stockholders of record may vote their stock by:

attending the meeting and voting their stock in person at the meeting,

completing the enclosed proxy card, signing and dating it and mailing it in the enclosed postage pre-paid envelope, or

voting via telephone or via the Internet by following the instructions provided on the enclosed proxy card.

**If a proxy card is signed by a stockholder of record and returned without specific voting instructions, the stock represented by the proxy will be voted for the proposals presented at the meeting.**

Stockholders whose shares of Mariner common stock are held in the name of a bank, broker or other fiduciary must either direct the record holder of their shares of Mariner common stock as to how to vote their shares of Mariner common stock or obtain a proxy from the record holder to vote at the meeting.

All proxies received at or prior to the meeting will be counted in the vote on the adoption of the merger and the approval of the other proposals.

***Revoking Proxies***

Stockholders of record may revoke their proxies at any time prior to the time their proxies are voted at the meeting. Stockholders can revoke their proxies and change their votes by:

completing, signing and dating a new proxy card and returning it by mail so that it is received prior to the meeting;

voting via telephone or via the Internet by following the instructions provided on your proxy card;

**Table of Contents**

sending a written notice to The Continental Stock Transfer & Trust Company that is received prior to the meeting stating that you revoke your proxy; or

attending the meeting and voting in person or by legal proxy, if appropriate.

Internet and telephone voters may use the same procedure to revoke or change their votes as they used to cast their original votes. If your shares of Mariner common stock are held in the name of a bank, broker or other fiduciary and you have directed such person(s) to vote your shares of Mariner common stock, you should instruct such person(s) to change your vote or obtain a legal proxy to do so yourself. Telephone and Internet voting will close at 8:00 p.m. Eastern time on the day before the meeting. Thereafter, voting (including revocations of proxies) can be made by mail or facsimile received prior to the meeting, or in person at the meeting.

Any written notice of a revocation of a proxy should be sent to the following address:

The Continental Stock Transfer & Trust Company

17 Battery Place

8th Floor

New York, New York 10004

Facsimile: (212) 509-5152

***Other Business; Adjournments***

Mariner is not aware of any other business to be acted upon at the meeting. If, however, other matters are properly brought before the meeting or any adjourned meeting, your proxies will have discretion to act on those matters or to adjourn the meeting, according to their best judgment.

***Proxy Solicitation***

The cost of solicitation of proxies from stockholders will be paid by Mariner, other than the costs of printing, filing and mailing this proxy statement/prospectus-information statement and the registration statement of which it is a part, which will be borne equally by Mariner and Forest. In addition to solicitation by mail, the directors, officers and employees of Mariner may also solicit proxies from stockholders by telephone, facsimile or in person. Mariner also will make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send the proxy materials to beneficial owners. Upon request, Mariner will reimburse those brokerage houses and custodians for their reasonable expenses in so doing.

Mariner has retained Mellon Investor Services LLC to provide advice and to aid with the solicitation of proxies from Mariner stockholders for the meeting. Mellon Investor Services LLC will receive a fee of \$4,500, plus \$4.25 per stockholder contact, as compensation for its services, and will be reimbursed for its related reasonable out-of-pocket expenses.

**Do not send any stock certificate(s) with your proxy cards. Mariner stockholders will not be required to send in their stock certificates if the merger is completed. After the merger is completed, the shares of Forest Energy Resources common stock held by Forest shareholders will be exchanged for shares of Mariner common stock via book-entry procedures.**

**Interests of Certain Persons in the Merger**

In considering the recommendation of the Mariner board of directors to vote for the proposals to adopt the merger agreement and to approve the other proposals, stockholders of Mariner should be aware that members of the Mariner board of directors and executive officers of Mariner have agreements and arrangements that provide them with interests in the merger that differ from, or are in addition to, those of Mariner stockholders. The Mariner board of directors was aware of these agreements and arrangements during its deliberations of the merits of the merger and in determining to recommend to the stockholders of Mariner

## **Table of Contents**

that they vote for the proposal to adopt the merger agreement. These agreements and arrangements can be summarized as follows:

*Governance Structure.* Under the terms of the merger agreement, the board of directors of Mariner after completion of the merger will be comprised of seven individuals, five of whom are current directors of Mariner, and two of whom will be mutually agreed to by Mariner and Forest prior to the completion of the merger.

*Payments for Waivers of Rights under Employment Agreements.* The executive officers of Mariner will receive cash payments of \$1,000 each in exchange for the waiver of certain rights under their employment agreements, including the automatic vesting or acceleration of restricted stock and options upon the completion of the merger and the right to receive a lump sum cash payment, equal to 2.0 (2.5 for Mr. Polasek and 2.99 for Mr. Josey) times the sum of the officer's base salary and three year average annual bonus, if the officer voluntarily terminates employment without good reason within nine months following the completion of the merger.

*Severance Arrangements.* The executive officers have employment agreements that will remain in effect after the completion of the merger. These agreements generally entitle the officers to severance benefits in the event of a resignation for good reason, a termination without cause or, in the case of Scott Josey's agreement, Mariner's non-renewal of the agreement. These severance benefits are comprised of (i) a payment equal to 18 months of salary continuation (two years for Mr. Josey and Mr. Polasek) at the highest rate in effect prior to termination, (ii) health care coverage for a period of eighteen months (two years for Mr. Josey and Mr. Polasek), (iii) an amount equal to the sum of all bonuses paid to the officer in the year prior to the year in which termination occurs, (iv) 100% vesting of all restricted shares under our Equity Participation Plan, and (v) 50% vesting of all other rights under any other equity plans, including our Stock Incentive Plan.

The employment agreements also provide for certain change of control benefits. Upon termination for any reason other than cause at any time within nine months after a change of control that occurs while the executive is employed, or upon the occurrence of a change of control within nine months following resignation of employment for good reason or termination without cause, the agreements provide for the following benefits: (i) a lump sum payment equal to 2.0 (2.5 for Mr. Polasek and 2.99 for Mr. Josey) times the sum of the officer's base salary and three year average annual bonus, and (ii) 100% vesting of all rights under any equity plans, including our Equity Participation Plan and our Stock Incentive Plan. The officers are entitled to a full tax gross-up payment if the aggregate payments and benefits to be provided constitute a parachute payment subject to a Federal excise tax. Pursuant to the waivers described above, the executive officers will waive their rights to the automatic vesting or acceleration of restricted stock and options upon completion of the merger and to receive a lump sum payment if they terminate their employment with Mariner without good reason within nine months following the completion of the merger.

### **Stock Ownership of Directors and Executive Officers**

As of the close of business on December 21, 2005, directors and executive officers of Mariner and their affiliates as a group beneficially owned and were entitled to vote approximately 3.7 million shares of Mariner common stock (including restricted stock subject to vesting), representing approximately 10.4% of the shares of Mariner common stock outstanding on that date.

All of the directors and executive officers of Mariner who are entitled to vote at the meeting have indicated that they intend to vote their shares of Mariner common stock in favor of adoption of the merger agreement.

### **Appraisal and Dissenters' Rights**

In accordance with the Delaware General Corporation Law, there will be no appraisal rights or dissenters' rights available to holders of Mariner common stock in connection with the merger.

**Table of Contents**

**THE SPIN-OFF AND MERGER**

*The discussion in this proxy statement/prospectus-information statement of the merger and the principal terms of the merger agreement is subject to and qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement/prospectus-information statement as Annex A and is incorporated by reference into this proxy statement/prospectus-information statement.*

**Background of the Merger**

At regular meetings of Forest's board held on November 10, 2004 and February 23, 2005, Forest's management made presentations regarding the estimated value of Forest's business units. Forest's board and management agreed to examine alternatives to increase the value of the Forest Gulf of Mexico operations. The alternatives were taxable and non-taxable divestments of the Forest Gulf of Mexico operations, and included an outright cash sale of those operations, an initial public offering, and some form of a merger transaction. Forest's board determined that, due to the disparity in the market value and tax basis of the Forest Gulf of Mexico operations, a non-taxable alternative would be most attractive to Forest and its shareholders. One specific alternative presented by management was merging the Forest Gulf of Mexico operations with another company that was more focused on offshore activities and possessed a complementary asset base. Forest's directors instructed Forest's management to consider means to accomplish such a merger and to discuss such a strategy with financial advisors and legal and tax counsel.

On April 18, 2005, Mr. David Keyte, the Chief Financial Officer of Forest, spoke briefly with Mr. Scott Josey, the Chief Executive Officer, President and Chairman of Mariner, at a meeting of the Independent Petroleum Association of America in New York City. Mr. Keyte told Mr. Josey that Forest was interested in examining the possibility of spinning off its Gulf of Mexico operations utilizing a reverse Morris Trust structure. In general terms, a reverse Morris Trust structure in this context would entail a Forest distribution of the stock of one of its subsidiaries (preexisting or newly formed) to Forest shareholders, followed by a merger between such subsidiary and Mariner. Mr. Josey expressed interest in a potential transaction, and Messrs. Keyte and Josey agreed to discuss the matter with greater specificity at a later date.

Forest's initial contact with Mariner regarding a potential transaction was not the result of affiliations between the parties. Forest and Mariner do not have common directors, and no member of senior management of either party is a former employee of, or is otherwise affiliated with, the other party. Mariner's largest stockholder, FMR Corp. (which holds approximately 12.2% of Mariner's outstanding shares), is also the second largest shareholder of Forest (holding approximately 12.7% of Forest's outstanding shares). FMR Corp. has no board representation or other management control over either party. Mr. Forrest E. Høglund, the Chairman of Forest's board of directors, served as Chairman of the Board of EOG Resources, Inc., an affiliate of Enron Corp., from 1987 to 1999 and as President from 1990 to 1996. During part of this period, Mariner was also an affiliate of Enron Corp., though the companies' respective management teams were separate. Neither Mr. Høglund nor Mariner is currently affiliated with Enron Corp.

On May 10, 2005, at a regularly scheduled board meeting at Forest's offices in Denver, Colorado, Forest management made a presentation to the Forest board of directors regarding a potential spin-off and merger of the Forest Gulf of Mexico operations, utilizing a reverse Morris Trust structure. Forest's management identified five potential merger parties that met certain criteria relating to size and complementary Gulf of Mexico asset base. The Forest board authorized Forest management to begin efforts to evaluate and pursue the potential spin-off. As a result, during the week of May 16, 2005, Mr. Keyte contacted each of the five potential merger parties.

On or about May 21, 2005, Forest sent to Mariner a confidentiality agreement regarding the proposed transaction and any subsequent due diligence reviews. From May 21, 2005 through May 23, 2005, Forest and Mariner negotiated the terms of the confidentiality agreement and on May 23, 2005, Forest and Mariner executed the confidentiality agreement. Over the course of the following week, Forest executed confidentiality agreements with three other potential merger parties, and Forest management made presentations regarding a possible spin-off and merger to each such party.



**Table of Contents**

On May 24, 2005, Mr. Keyte, Mr. Michael Kennedy, the Investor Relations Manager of Forest, and Mr. Josey met in Houston, Texas. At the meeting, Mr. Keyte made a presentation detailing the transaction contemplated by Forest. The presentation described the transaction structure and provided information on the assets, reserves, acreage, personnel and performance metrics (including production and EBITDA) of the Forest Gulf of Mexico operations. The presentation also covered the pro forma operational and financial characteristics of the combined company based on preliminary figures. Mr. Keyte identified several potential advantages to Mariner of undertaking the proposed transaction, including increased liquidity, an attractive, balanced asset portfolio in the Gulf of Mexico, and property prospects for future development. Mr. Keyte did not propose economic terms for the transaction, such as the ownership stake Forest shareholders would hold in Mariner after the completion of the transaction. After this, Mr. Josey made a presentation regarding Mariner and the merits of consummating a transaction with Mariner. The presentation provided an overview of Mariner's operations, properties, production and reserves; management structure; exploration and development projects, including the Swordfish project (please see Mariner Significant Properties Gulf of Mexico Deepwater for more information on this project); and financial data, including capital expenditures. Prior to the conclusion of the meeting, Mr. Keyte requested that Mariner's management team make a presentation to Forest's board of directors at a later date.

On June 2, 2005, Forest made available to Mariner, for purposes of its due diligence review, electronic data regarding the reserves, lease operating expenses, capital expenditures, production, general and administrative expenses and financial performance of the Forest Gulf of Mexico operations. Forest also made the same information available to the other potential merger parties. Representatives of Mariner and the other potential merger parties conducted reviews of these materials on an ongoing basis over the course of the following weeks.

On June 16, 2005, the executive committee of Forest's board of directors, consisting of Messrs. Forrest E. Høglund, James H. Lee and Craig Clark, met in Houston, Texas with members of Forest management and representatives of Citigroup Global Markets Inc. (Citigroup) (one of Forest's financial advisors) to discuss the contemplated spin-off and merger. Representatives of two potential merger parties (other than Mariner) then sequentially joined the meeting and made presentations to the executive committee.

On June 22, 2005, the executive committee of Forest's board of directors held a meeting in Forest's offices in Denver, Colorado. Members of Forest management and representatives of Citigroup were also present at the meeting. At this meeting, the executive committee was briefed on the status of discussions with potential merger parties. Mr. Josey, accompanied by Messrs. Dalton Polasek, Chief Operating Officer, Rick Lester, Vice President and Chief Financial Officer, Mike van den Bold, Vice President and Chief Exploration Officer, and Jesus Melendrez, Vice President Corporate Development of Mariner, then joined the meeting and made a presentation to the executive committee and the other attendees. The presentation provided an overview of Mariner's operations, properties, production and reserves; management structure; exploration and development projects, including the King Kong/Yosemite, Pluto II, Bass Lite, LaSalle, Swordfish, Green Pepper and Rigel projects; prospect inventory; drilling programs; seismic databases; and financial data, including a capital expenditure budget for 2005. Mr. Josey presented Mariner's views on its own enterprise value and discussed a proposed method for establishing an exchange ratio focused primarily upon the PV10 values of the parties' estimated proved reserves. He did not propose an exchange ratio for the transaction or other specific economic terms. Mr. Josey advised Forest that Mariner would require that the evaluation of Mariner for purposes of establishing an exchange ratio give effect to its anticipated West Texas acquisition.

On June 23, 2005, a special committee of Forest's board of directors was formed to consider proposals to spin-off the Forest Gulf of Mexico operations. The directors named to be members of the committee were Messrs. Høglund, Dod A. Fraser, Mr. Lee, James D. Lighter, and Patrick R. McDonald.

On June 28, 2005, Mariner and the other potential merger parties received a written request from Forest for a non-binding, preliminary proposal to acquire the Forest Gulf of Mexico operations. The proposal was requested to be submitted no later than July 6 and to include certain information, including the percentage of shares of the combined entity to be held by Forest shareholders, key assumptions used in arriving at the level



**Table of Contents**

of consideration to be offered, transaction structure, and a statement of intent with respect to employees of the Forest Gulf of Mexico operations.

On June 29, 2005, Mr. Clark, Forest's Chief Executive Officer, and other members of Forest's management and technical teams made a presentation to another potential merger party on the attributes and upside potential of the Forest Gulf of Mexico operations. Representatives of Citigroup were also present at the meeting. The size of the other potential merger party in comparison to the Forest Gulf of Mexico operations was identified as an issue that might preclude Forest from structuring the spin-off as a tax-free transaction. Therefore, Forest could be required to include more assets in the transaction, either in the form of additional oil and gas operations or cash.

On July 6, 2005, Mariner submitted to Forest a non-binding preliminary written proposal to acquire the Forest Gulf of Mexico operations. In the proposal, Mariner indicated its willingness to consummate a transaction in which Forest shareholders would hold between 53% and 56% of Mariner's shares after the transaction, and Mariner would assume \$300 million of indebtedness as part of the merger, which would be incurred by Forest's subsidiary prior to being spun off by Forest in order to fund a distribution to Forest prior to the spin-off. Mariner stated that it had based its valuation of the Forest Gulf of Mexico operations at between 90% and 100% of the value of the Forest Gulf of Mexico operations estimated proved reserves and 100% of the value of Mariner's estimated proved reserves. The proposal was subject to due diligence, and assumed an economic effective date of June 30, 2005 (i.e., all revenues and expenditures of the Forest Gulf of Mexico operations would accrue to the account of Mariner from that date). Mariner also included supporting schedules providing details on Mariner's calculations of the respective values of the companies, based on the parties' respective PV10 values at June 30, 2005. Mariner's schedules estimated Mariner's value, based upon PV10 values for its estimated proved reserves, and adjusted for debt, working capital and derivatives, at approximately \$883 million. Mariner's schedules estimated the Forest Gulf of Mexico operations' value, based upon PV10 values for its estimated proved reserves, and adjusted for \$300 million of debt, in a range from \$978 million to \$1.1 billion.

Also on July 6, 2005, one of the other potential merger parties submitted a written proposal to Forest to acquire the Forest Gulf of Mexico operations and certain other substantial assets of Forest for a maximum valuation of \$1.335 billion in stock. The other proposal provided for no cash payment to Forest, and for a repurchase of the other party's stock to accommodate the other parties' assessment of relative value.

On July 11, 2005, the special committee of Forest's board of directors met by teleconference with members of Forest management and representatives of Citigroup and Credit Suisse First Boston (CSFB) (another of Forest's financial advisors). At this meeting, the special committee was briefed on the status of discussions with the potential merger parties and the parties' July 6 proposals. After discussion, the special committee concluded that, with respect to the Forest Gulf of Mexico operations, the valuation contained in the other potential merger party's proposal was comparable to the valuation contained in Mariner's proposal but that, with respect to Forest's other assets, the other potential merger party's valuation was insufficient. Further, the other party's transaction structure was very complex, which Forest believed made the transaction less viable.

On July 14, 2005, Mr. Clark and other members of Forest's management and technical teams made a presentation to Mr. Josey and other members of Mariner's management and technical teams in Houston, Texas, on the attributes and upside potential of the Forest Gulf of Mexico operations. Representatives of Citigroup and CSFB were also present at the meeting. The presentation provided detail on several pending exploration and development projects.

On July 15, 2005, members of Forest management, together with representatives of Citigroup and CSFB, met in Houston, Texas with the other party that had submitted a proposal to discuss the potential benefits of a transaction.

Following further technical and reserve due diligence, on July 21, 2005, Mariner submitted a revised non-binding preliminary written proposal to Forest. In the proposal, Mariner stated that it had revised the basis of its valuation to 100% of the value of the proved reserves of the Forest Gulf of Mexico operations, and was

**Table of Contents**

therefore confirming its willingness to enter into a transaction in which Forest shareholders would hold approximately 56% of Mariner's shares, subject to due diligence and adjustment based upon material changes occurring prior to the execution of the merger agreement. As with the July 6, 2005 proposal, Mariner would assume \$300 million of indebtedness, and the transaction would have an economic effective date of June 30, 2005. Mariner also requested that Forest enter into an exclusivity agreement, whereby Forest would agree to negotiate exclusively with Mariner for a period of 45 days.

On July 25, 2005, in accordance with Forest's instructions, representatives of Citigroup met with Mr. Josey by teleconference. At the conclusion of the discussion, Mr. Josey indicated that he would ask the Mariner board to consider a transaction in which Forest shareholders would hold approximately 57% of the equity interests of the combined company after the merger, subject to due diligence and adjustment based upon material changes occurring prior to execution of the merger agreement.

On July 27, 2005, the special committee of Forest's board of directors met by teleconference. Members of Forest management and representatives of Citigroup, CSFB and Vinson & Elkins L.L.P., outside counsel to Forest, were also present at the meeting. At this meeting, the special committee was updated on discussions with the potential merger parties since the committee's July 11th meeting and on the proposals of Mariner and one other party. The special committee also discussed alternative transactions involving the Forest Gulf of Mexico operations, including an initial public offering, an outright sale of the underlying assets, and the creation of a net-profits master limited partnership. The special committee instructed Forest management to pursue negotiations with Mariner. The special committee based its decision on the following factors: (i) Mariner's deepwater property portfolio was complementary to Forest's Gulf of Mexico portfolio, (ii) a spin-off followed by a merger transaction could be done with Mariner without having to involve assets other than the Forest Gulf of Mexico operations, and (iii) the other potential merger party's valuation of Forest's other producing operations did not appear to be sufficient.

On July 27, 2005, in accordance with Forest's instructions, a representative of Citigroup advised Mr. Josey that Forest's board had approved management's pursuit of a transaction with Mariner. Subsequently, Mr. Josey advised Mr. Clark by teleconference that Mariner was not willing to proceed unless Forest would agree to an exchange ratio adjustment for changes in Mariner's working capital and debt since June 30, 2005.

On July 28, 2005, Mr. Clark and Mr. Josey again met by teleconference. They discussed the proposed exchange ratio and adjustments and agreed to commence negotiating definitive documentation. Mr. Clark advised Mr. Josey that Forest would give Mariner access to additional due diligence materials.

On July 29, 2005, Forest distributed a draft non-binding term sheet for the transaction. The term sheet reflected the 57% exchange ratio and other agreed-upon terms, and was subject to mutual due diligence. Over the following three days, representatives of Forest and Mariner discussed various provisions in the term sheet, including whether interim operating covenants would apply to Mariner as well as the Forest Gulf of Mexico operations, board representation and whether or in what manner transaction expenses would be split between the parties.

Subsequently, Forest and Mariner executed an exclusivity agreement effective August 1, 2005, whereby the parties agreed to negotiate exclusively with each other through August 22, 2005. The agreement also contained a customary standstill provision, which provided that neither company would pursue an acquisition of the other party without that party's consent.

On August 2, 2005, Forest and Mariner finalized the terms of the non-binding term sheet for the transaction. The term sheet reflected the 57% exchange ratio, provided that interim operating covenants would be applicable to both Mariner and the Forest Gulf of Mexico operations, provided for the addition of two mutually agreeable members to Mariner's board and provided that transaction costs would be borne by both parties.

On August 4 and 5, 2005, representatives of Forest conducted a due diligence review of certain legal and employee benefits materials of Mariner at the offices of Baker Botts L.L.P., Mariner's outside counsel, in Houston, Texas. Materials provided included general corporate materials, litigation summaries, material

**Table of Contents**

contracts, employment agreements, benefits arrangements and summaries, licenses and permits and environmental and regulatory information.

On August 5, 2005, Vinson & Elkins distributed a draft merger agreement to Mariner and Baker Botts.

On August 7, 2005, Mr. Josey met with representatives of Lehman Brothers (Mariner's financial advisor) in the offices of Mariner. They discussed the general terms and structure of the transaction and the proposed exchange ratio.

On August 8 and 9, 2005, technical teams from Forest conducted a due diligence review and valuation analysis of Mariner's proved reserves, drilling inventory and undeveloped acreage. Forest continued its technical, reserve, accounting, employee benefits, title and legal due diligence review over the course of the following weeks.

On August 9, 2005, representatives of Mariner and Baker Botts began a due diligence review of certain legal, title and employee benefits materials at the offices of Forest in Denver, Colorado, and Mariner's technical team conducted further due diligence and continued its evaluation of Forest's proved reserves, drilling inventory and undeveloped acreage. Materials provided included general corporate materials, litigation summaries, land, lease and title materials, material contracts, employment agreements, benefits arrangements and summaries, licenses and permits and environmental and regulatory information. With the assistance of appropriate legal, title, financial, tax, engineering, and human resources consultants, Mariner continued its technical, reserve, accounting, employee benefits, title and legal due diligence review over the course of the following weeks.

On August 10, 2005, Messrs. Clark and Keyte, Mr. Matthew Wurtzbacher, Senior Vice President, Corporate Planning and Development of Forest, and Mr. Cyrus Marter, Vice President and General Counsel of Forest, and Messrs. Josey, Lester, and Melendrez, and Ms. Teresa Bushman, Vice President and General Counsel of Mariner, together with representatives of Vinson & Elkins, Baker Botts, Citigroup and Lehman Brothers, met in the offices of Vinson & Elkins in Houston, Texas. Vinson & Elkins explained how the draft merger agreement had addressed some of the details of the proposed transaction structure, which led to a discussion of whether Mariner or Forest Energy Resources would be the surviving entity in the business combination. Discussion of the structural issue was postponed pending further analysis. The parties also discussed interim operations following the execution of the merger agreement, with Mariner suggesting that both parties covenant to continue their exploration and development programs in accordance with their capital budgets. Forest indicated that it was amenable to this approach. Finally, the draft agreement proposed superior offer termination provisions in favor of Forest, which Mariner and Baker Botts stated would not be acceptable. Also, Mariner and Baker & Botts objected to the Mariner fiduciary provisions since they did not include a fiduciary termination provision. A fiduciary termination provision allows a party's board of directors, if required by its fiduciary duties, to terminate the agreement in order to accept a subsequent superior offer. Representatives of Forest, Mariner, Baker Botts and Vinson & Elkins negotiated and exchanged drafts of the merger agreement, distribution agreement and other ancillary agreements over the course of the following week.

On August 15, 2005, Messrs. Keyte and Marter of Forest, and Messrs. Josey, Lester and Melendrez and Ms. Bushman of Mariner, together with representatives of Citigroup, Vinson & Elkins and Baker Botts, met by teleconference to discuss the draft distribution agreement. The companies discussed, and reached agreement in principle on, the manner in which known and unknown liabilities, including environmental and plugging and abandonment liabilities, would be allocated between Mariner and Forest. The companies also discussed the mechanism for handling revenues and expenses associated with the Forest Gulf of Mexico operations between July 1, 2005 and the closing of the merger.

On August 16, 2005, representatives of Baker Botts and Vinson & Elkins met by teleconference to discuss the deal protection provisions proposed by Forest in the draft merger agreement. Vinson & Elkins indicated Forest's unwillingness to proceed with a transaction in which it did not have the right to terminate the agreement in the face of a superior proposal to purchase the Forest Gulf of Mexico operations or Forest as a

**Table of Contents**

whole. Baker Botts indicated that Mariner would not be willing to enter into a merger agreement that included such a termination right.

On August 18, 2005, representatives of Mariner, Forest, Baker Botts and Weil, Gotshal & Manges LLP (Forest's outside tax counsel) met by teleconference to discuss the draft tax sharing agreement and related documents. During the meeting, Forest and Weil, Gotshal & Manges discussed certain factual circumstances involving forward contracts to sell Forest stock entered into by a Forest shareholder who held more than 10% of Forest stock, the effect of which could have imposed increased restraints on Mariner in the future in order to maintain favorable tax treatment of the spin-off.

Also on August 18, representatives of Mariner, Forest, Citigroup, Baker Botts and Vinson & Elkins met by teleconference to discuss the other transaction agreements. Following this teleconference, Lehman Brothers contacted Citigroup to notify them of Mariner's unwillingness to proceed further until the potential tax issue regarding how the forward contracts entered into by the 10% Forest shareholder could impact the tax-free nature of the spin-off was resolved to Mariner's satisfaction.

On August 19, 2005, Lehman Brothers contacted Citigroup to discuss various matters pertaining to the transaction and to propose that, in order to resolve the potential tax issue raised on August 18, the cash distribution to Forest be decreased by \$100 million (thereby decreasing the amount of debt to be incurred in the transaction) and the number of Mariner shares to be issued to Forest shareholders be correspondingly increased.

On August 21, 2005, Mr. Josey of Mariner sent Messrs. Clark and Keyte of Forest a list of the most significant outstanding issues, including the potential tax issue, the superior offer termination provision, the representations on diligence materials and public filings, the treatment of Forest stock options, retention arrangements, the allocation of specified abandonment and derivative liabilities and the status of Mariner's then-pending drill-to-earn transaction in West Texas. The parties agreed to meet in person to attempt to resolve the issues identified.

On August 22, 2005, Messrs. Josey, Clark, Keyte and Melendrez met in Forest's offices in Denver, Colorado. At the meeting, the parties agreed, in order to resolve the potential tax issue, to decrease the cash distribution to Forest by \$100 million, to have Mariner assume certain mark-to-market derivative liabilities of approximately \$50 million at June 30, 2005, and to increase the number of Mariner shares to be issued to Forest shareholders to approximately 58%. They also discussed the superior offer termination provision and the amount of the termination fee, without reaching agreement. The parties' respective counsels revised the transaction agreements accordingly, and the transaction teams continued to negotiate various provisions in the agreements and to discuss various diligence issues over the course of the week.

On August 23, 2005, Messrs. Keyte and Josey met briefly by teleconference to discuss, among other things, the West Texas drill-to-earn transaction, the superior offer termination provision and the amount of the termination fee. That same day, the parties agreed to extend the exclusivity period under their existing agreement until August 29.

On August 24, 2005, Forest's board of directors held a regular meeting at Forest's offices in Denver, Colorado. Members of Forest management and representatives of Citigroup and CSFB were also present during the portion of the meeting devoted to the potential spin-off and merger transaction. At this meeting, the board was briefed on financial and other aspects of the transaction, including the status of negotiations with Mariner and the current terms of the transaction agreements. Also on August 24, 2005, Messrs. Clark and Josey met by teleconference to discuss additional diligence requests regarding reserves, current projects and plugging and abandonment costs from Mariner and Forest. Mr. Clark and Mr. Josey agreed to speak again when responsive data had been gathered.

On August 25, 2005, Messrs. Clark and Josey met by teleconference, during which the requested diligence information described above was exchanged and additional diligence matters were discussed.

On August 27, 2005, Mr. Marter of Forest, and Messrs. Lester and Melendrez and Ms. Bushman of Mariner, together with representatives of Vinson & Elkins and Baker Botts, met in the offices of Vinson &

**Table of Contents**

Elkins in Houston, Texas. The parties discussed and negotiated some of the outstanding issues remaining with respect to the transaction agreements, including the scope and pricing of the transition services to be provided by Forest after the closing, and the allocation of certain specified abandonment and environmental liabilities of the Forest Gulf of Mexico operations. The parties reached substantial agreement on transition services, but did not agree which party would bear the abandonment and environmental liabilities associated with two properties.

On August 28, 2005, Messrs. Keyte, Wurtzbacher and Marter of Forest, and Messrs. Lester and Melendrez and Ms. Bushman of Mariner, together with representatives of Vinson & Elkins and Baker Botts, met in the offices of Vinson & Elkins in Houston, Texas. The parties negotiated and discussed the outstanding issues remaining with respect to the transaction agreements, including Forest's proposed superior offer termination right, the status of Mariner's then-pending drill-to-earn transaction in West Texas and the specified abandonment and environmental liabilities. The parties agreed that Mariner would obtain a performance bond to secure its performance in the drill-to-earn program, and that it would assume a portion of the abandonment and environmental liabilities, subject to a cap. Mr. Keyte stated that Forest would be willing to proceed without a superior offer termination provision in favor of Forest. The parties also agreed that Mariner would have the ability to terminate the agreement in certain circumstances in order to accept a superior proposal to acquire Mariner. Finally, the parties agreed on a termination fee of \$25 million and an expense reimbursement provision payable by Mariner if the merger agreement were terminated or rejected by its stockholders in order to accept an alternative transaction. The Mariner representatives did not insist on a termination fee or reimbursement provision applicable to Forest because there would be no provisions in the merger agreement pursuant to which Forest could terminate the agreement in order to accept an alternative transaction. The parties concluded the meeting by agreeing to keep each other updated on developments related to Hurricane Katrina, which was expected to reach the parties' properties in the Gulf of Mexico that evening.

On August 29, 2005, Messrs. Clark and Josey met in Mariner's offices in Houston, Texas to discuss retention arrangements for Mariner's executive officers and for the employees of the Forest Gulf of Mexico operations. During the meeting, they reviewed organizational charts and discussed the companies' benefits and incentive plans. The parties discussed the basic retention parameters for both sets of employees, including the terms of Mariner's executive officers' waivers of change of control benefits, with details to be agreed upon later. The parties also agreed to exchange periodic updates on the impact of Hurricane Katrina on the companies' respective assets and equipment. Baker Botts and Vinson & Elkins exchanged drafts of the transaction documents over the course of the day. That same day, the Forest board of directors held a special meeting by teleconference. Members of Forest management and representatives of Citigroup, Vinson & Elkins and Weil, Gotshal & Manges were also present at the meeting. Forest management and a representative of Vinson & Elkins briefed the board on the status of negotiations with Mariner and the current form of the transaction agreements. Mr. Kenneth Heitner of Weil, Gotshal & Manges briefed the board regarding the various tax issues that were relevant to the spin-off, how those issues were addressed in the transaction agreements, and the constraints that Mariner and Forest would face in the future in order to maintain favorable tax treatment of the spin-off. Vinson & Elkins advised the board regarding various corporate law matters and confirmed that a superior offer termination provision in favor of Forest was not necessary from a legal point of view. Forest management also briefed the board regarding Forest's on-going investigation of the potential impact of Hurricane Katrina on both Forest and Mariner.

On August 30, 2005, the board of directors of Mariner held a special meeting by teleconference, at which Mariner's management, together with Lehman Brothers and Baker Botts, updated the board on the proposed transaction and related matters, including the strategic and business considerations relating to the transaction, the ongoing diligence review, the status of discussions between the parties and the principal terms of the transaction agreements. Lehman Brothers discussed with the board the expected financial terms of the transaction and the preliminary valuation analyses it had performed with respect to Mariner and the Forest Gulf of Mexico operations, noting that the valuation inputs and ranges used in the analysis were subject to change until due diligence was completed and the terms of the transaction were finalized. A representative of Baker Botts reviewed in detail the fiduciary termination provisions of the agreement and certain other





**Table of Contents**

principal terms of the transaction agreements. Following extensive discussion, including discussions regarding the potential impact of Hurricane Katrina on both Mariner and the Forest Gulf of Mexico operations, the Mariner board authorized continuing discussions regarding the proposed transaction.

On August 31, 2005, Messrs. Clark and Josey met by teleconference to finalize their agreement with respect to retention arrangements and to provide one another with updates regarding the potential impact of Hurricane Katrina on the companies' respective assets.

On September 1, 2005, the Forest board of directors met by teleconference. Members of Forest management and representatives of Citigroup, Vinson & Elkins and Weil, Gotshal & Manges were also present at the meeting. At this meeting, the Forest board was updated on financial and other aspects of the transaction, including Forest's investigation of the potential impact of Hurricane Katrina on Forest and Mariner and the status of negotiations with Mariner. The Forest board then granted full authority to the executive committee to finalize the transaction agreements.

On September 3 and 4, 2005, representatives from Forest and Mariner conducted visual inspections by helicopter and fixed-wing aircraft of certain of Forest's and Mariner's properties in the Gulf of Mexico in order to assess the damage sustained as a result of Hurricane Katrina.

From September 2 through September 6, 2005, the parties exchanged revised drafts of the transaction agreements. On September 6, 2005, the executive committee of Forest's board met by teleconference. Members of Forest management were also present at the meeting. The executive committee was briefed by management on the status of discussions with Mariner and regarding Forest's investigation of the potential impact of Hurricane Katrina on Forest and Mariner. The executive committee instructed Forest management regarding necessary changes to the transaction agreements, focusing on the need to clarify the impact of Hurricane Katrina.

On September 7, 2005, Mr. Keyte of Forest and Mr. Melendrez of Mariner met by teleconference to resolve the remaining issues relating to the transaction, including the limitation applicable to the specified abandonment and environmental liabilities and the scope of the condition to closing that Forest obtain the consent of its bondholders. The parties reached compromises on both points and also agreed to exchange written reports detailing the damage sustained to their respective assets as a result of Hurricane Katrina, which reports, along with finalized projections for both companies, were subsequently exchanged on September 8, 2005.

On September 9, 2005, the board of directors of Mariner held a special meeting by teleconference, to review the proposed transaction. At the meeting, Mariner's management, together with representatives of Lehman Brothers and Baker Botts, apprised the Mariner board of the status of discussions and reviewed the terms of the transaction as reflected in the final forms of the transaction agreements. Lehman Brothers delivered its oral opinion (subsequently confirmed in writing) to the board that, as of September 9, 2005, based upon and subject to the factors and assumptions set forth in the opinion, the exchange ratio in the merger was fair from a financial point of view to Mariner. There were no material differences between Lehman Brothers' written opinion and the oral opinion given at the board meeting. Baker Botts advised the board regarding certain corporate law matters. Following extensive discussion, the Mariner board approved the merger and the merger agreement and resolved to recommend that Mariner's stockholders vote to adopt the merger agreement. That same day, the executive committee of Forest's board of directors met by teleconference. Members of Forest management and representatives of Citigroup and Vinson & Elkins were also present at the meeting. At this meeting, the executive committee was briefed on the final form of the transaction agreements (including the agreed upon financial terms of the transaction as reflected in the transaction documents) and on Forest's latest assessment of Hurricane Katrina's impact on Forest and Mariner. After full discussion, the executive committee approved the final form of the merger agreement and other transaction agreements. Shortly after the meetings, the merger agreement and other transaction agreements were executed by the parties to the agreements.

**Table of Contents**

**Reasons for the Merger; Recommendation of the Mariner Board of Directors**

The Mariner board of directors has determined that the merger is fair to and in the best interests of Mariner and its stockholders, and that the merger agreement is advisable. The Mariner board of directors has unanimously approved the merger agreement, the proposed amendment to the certificate of incorporation and the proposed amendment and restatement of the stock incentive plan, and recommends the adoption of the merger agreement and the approval of the other proposals by the Mariner stockholders.

In considering the recommendation of the Mariner board of directors with respect to the merger, you should be aware that some executive officers and directors of Mariner have interests in the merger that may be different from, or in addition to, the interests of Mariner stockholders generally. The Mariner board of directors was aware of these interests in approving the merger and merger agreement. Please refer to *The Mariner Annual Meeting Interests of Certain Persons in the Merger* beginning on page 38 for more information about these interests.

In reaching its decision on the merger, the Mariner board of directors considered a number of factors, including the following:

the increased size of the combined company, which would have approximately three times the pro forma daily net production of Mariner on a stand-alone basis, could reduce volatility related to large-scale deepwater projects, and could allow it to participate in larger scale exploratory and development drilling projects and acquisition opportunities than would be available to Mariner on a stand-alone basis;

the merger would be expected to increase Mariner's estimated proved reserves, on a pro forma basis as of December 31, 2004, by approximately 243%, making Mariner larger on a reserve basis than many of its peer companies, and would more than double Mariner's undeveloped acreage;

the integration of the businesses and the realization of expected benefits could be facilitated by the fact that Mariner is already active in the Gulf of Mexico with assets that are complementary to the Forest Gulf of Mexico assets;

the merger could generate increased visibility in the capital markets and trading liquidity for the combined company, which could enhance the market valuation of Mariner common stock;

the merger would increase the number of Mariner's producing fields by approximately 400%, thereby diversifying Mariner's asset base and reducing Mariner's dependence on a concentrated number of properties;

the assets comprising the Forest Gulf of Mexico operations, which historically have been used as a cash flow generator for Forest, could be candidates for increased exploitation;

oil and natural gas prices are currently at or near historical highs, which could increase the revenues and enhance the profitability of the Forest Gulf of Mexico operations;

the merger would be consummated only if approved by the holders of a majority of the Mariner common stock;

the merger is structured as a tax-free reorganization for U.S. federal income tax purposes and, accordingly, would not be taxable either to Mariner or its stockholders;

the board's belief that the potential financial benefits stemming from the enhanced growth prospects of the combined company outweigh the anticipated direct and indirect costs of the merger;

the terms of the merger agreement permit Mariner to terminate the merger agreement at any time before the meeting to accept a superior proposal, subject to its obligation to comply with certain procedural requirements

and to pay a termination fee and expense reimbursement; and

48

---

**Table of Contents**

the opinion, dated September 9, 2005, of Lehman Brothers Inc. to the Mariner board of directors that, as of that date, based upon and subject to the factors and assumptions set forth in the opinion, the exchange ratio in the merger was fair from a financial point of view to Mariner.

The Mariner board of directors also identified and considered some risks and potential disadvantages associated with the merger, including the following:

the risk that there may be difficulties in combining the business of Mariner and the Forest Gulf of Mexico operations;

the risk that the potential benefits sought in the merger might not be fully realized;

the risk that the proved undeveloped, probable and possible reserves of the Forest Gulf of Mexico operations may never be converted to proved developed reserves;

the risks inherent in owning properties located in the Gulf of Mexico, including the risks of future hurricanes that could damage or destroy the acquired properties;

the risk that current high commodity prices could fall, thereby reducing the profitability of the acquired operations;

the risk that the merger might not be completed;

the fact that, in order to preserve the tax-free treatment of the spin-off, Mariner would be required to abide by restrictions that could reduce its ability to engage in certain business transactions that otherwise might be advantageous;

the fact that under the merger agreement, Mariner could be required to pay Forest a termination fee and expense reimbursement in certain circumstances; and

certain of the other matters described under Risk Factors beginning on page 23.

In the judgment of the Mariner board of directors, the potential benefits of the merger outweigh the risks and the potential disadvantages. In view of the variety of factors considered in connection with its evaluation of the proposed merger and the terms of the merger agreement, the Mariner board of directors did not quantify or assign relative weights to the factors considered in reaching its conclusion. Rather, the Mariner board of directors views its recommendation as being based on the totality of the information presented to and considered by it. In addition, individual Mariner directors may have given different weights to different factors.

**Certain Financial Projections**

In connection with the due diligence process during negotiations, Mariner and Forest provided each other with financial and operating projections for 2005 and 2006. Mariner's projections are summarized below.

	2005	2006
Revenue (in millions)	\$ 230.2	\$ 421.4
EBITDA (in millions)	\$ 185.2	\$ 353.9
Net income (in millions)	\$ 60.9	\$ 158.7
Net income per common share	\$ 1.71	\$ 4.45
Capital expenditures (in millions)	\$ 257.4	\$ 250.5

**Table of Contents**

Mariner's projections were based on a number of assumptions, including the following:

weighted average common shares outstanding of 35.6 million in both periods;

NYMEX prices for oil and Henry Hub prices for gas, as adjusted for pricing differentials and hedging contracts in place at such date as follows:

	2005	2006
Oil (per Bbl)	\$ 41.27	\$ 48.83
Gas (per Mcf)	\$ 6.86	\$ 7.87
Total (per Mcfe)	\$ 6.87	\$ 7.94

annual production as follows:

	2005	2006
Oil (MBbls)	1.9	2.4
Gas (Bcf)	21.6	38.8
Total (Bcfe)	33.2	53.1

a depreciation, depletion and amortization rate of \$1.84 per Mcfe for 2005 and \$1.80 per Mcfe for 2006;

an effective income tax rate of 35% in each period; and

various assumptions relating to delays in scheduled commencement of production at Pluto, Swordfish, Ochre and Dice, suspension of production at producing fields and increased capital expenditures due to Hurricane Katrina. Forest's projections for the Forest Gulf of Mexico Operations are summarized below.

	Six Months Ended December 31, 2005	2006
Revenue (in millions)	\$ 214.1	\$ 529.4
EBITDA (in millions)	\$ 173.5	\$ 450.5
Net income (in millions)	\$ 43.9	\$ 124.3
Net income per common share	\$ 0.87	\$ 2.45
Capital expenditures (in millions)	\$ 123.0	\$ 202.3

Forest's projections were based on a number of assumptions, including the following:

weighted average common shares outstanding of 50.6 million in each period;

NYMEX prices for oil and Henry Hub prices for gas, as adjusted for pricing differentials and hedging contracts in place at such date as follows:

**Six Months  
Ended  
December 31,**

	<b>2005</b>	<b>2006</b>
Oil (per Bbl)	\$ 47.42	\$ 48.41
Gas (per Mcf)	\$ 6.64	\$ 7.13
Total (per Mcfe)	\$ 7.02	\$ 7.35

**Table of Contents**

production as follows:

	<b>Six Months Ended December 31, 2005</b>	<b>2006</b>
Oil (MBbls)	1.5	2.9
Gas (Bcf)	21.3	54.7
Total (Bcfe)	30.5	72.0

a depreciation, depletion and amortization rate of \$3.26 per Mcfe for 2005 and \$3.43 per Mcfe for 2006;

an effective income tax rate of 35% in each period;

the allocation from July 1, 2005 to December 31, 2005 of general and administrative expenses as set forth in the distribution agreement;

net hedging losses of \$11.7 million for the six months ended December 31, 2005 and \$19.5 million in 2006;

various assumptions relating to general and administrative expenses to reflect the allocation set forth in the distribution agreement; and

transaction-related expenses of \$12 million for the six months ended December 31, 2005.

Mariner and Forest make public only very limited information as to future performance and neither company provides specific or detailed information as to earnings or performance over an extended period. The foregoing prospective financial information is included in this proxy statement/prospectus information statement only because this information was provided to the other party during negotiations. The prospective financial information of Mariner and Forest, which was prepared by the respective management of Mariner and Forest, was not prepared with a view to public disclosure or with a view toward complying with the published guidelines of the SEC or the guidelines established by the American Institute of Certified Public Accountants regarding prospective financial information. The projections do not purport to present operations in accordance with GAAP. The internal financial forecasts (upon which these projections were based in part) are, in general, prepared solely for internal use and capital budgeting and other management decisions and are subjective in many respects and thus susceptible to interpretations and periodic revision based on actual experience and business developments. Neither Mariner's nor Forest's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

In addition to the specific assumptions set forth above, the projections also reflect numerous assumptions made by management of both companies, including assumptions with respect to general business, economic, market and financial conditions and other matters, including effective tax rates and interest rates and the anticipated amount of borrowings, all of which are difficult to predict and many of which are beyond the control of the preparing party. Accordingly, there can be no assurance that the assumptions made in preparing the projections will prove accurate. Actual results may be materially greater or less than those contained in the projections. The inclusion of the projections in this proxy statement/prospectus information statement should not be regarded as an indication that the projections will be predictive of actual future events, and the projections should not be relied upon as such.

The projections were disclosed to the other party and its representatives as a matter of due diligence, and are included in this proxy statement/prospectus/information statement on that account. Each of Mariner and Forest

believes that the projections prepared by it were reasonable at the time they were made; however, none of Mariner or Forest or any of their respective representatives has made or makes any representation to any stockholder regarding the ultimate performance of Mariner or the Forest Gulf of Mexico operations compared to the information contained in the projections, and none of them intends to update or otherwise revise the projections to reflect circumstances existing after the date when made or to reflect the occurrence of future



**Table of Contents**

events in the event that any or all of the assumptions underlying the projections are shown to be in error. In particular, these projections were prepared prior to, and do not take into account the full effects of business interruptions due to, Hurricanes Katrina and Rita in August 2005 and September 2005, respectively.

**Opinion of Mariner's Financial Advisor**

Mariner engaged Lehman Brothers to act as its financial advisor in connection with the merger. On September 9, 2005, Lehman Brothers rendered its written opinion to the board of directors of Mariner, that, as of that date, based upon and subject to the matters stated in its opinion letter, from a financial point of view, the exchange ratio of 1.0 share of Mariner common stock for each share of Forest Energy Resources common stock in the merger was fair to Mariner.

The Mariner board of directors determined that the process leading up to the execution of the merger agreement was procedurally fair to all stockholders, including unaffiliated stockholders. The board did not obtain an independent advisor's opinion with respect to procedural fairness, because numerous factors supported the conclusion that sufficient procedural safeguards existed to protect the interests of all stockholders, including the following:

the fact that Mariner's board of directors unanimously approved the merger, including all directors with no interest in the merger other than their interests as stockholders of Mariner;

the fact that the stockholders of Mariner will be given the opportunity to vote on the merger, and that the merger agreement would not be adopted without the affirmative vote of at least a majority of Mariner's common stock;

the fact that Mariner does not have a controlling stockholder, and that directors and officers of Mariner own less than 11% of the outstanding stock of Mariner;

the fact that independent financial and legal advisors were retained to assist in the negotiation of the terms of the merger agreement, the distribution agreement and the other ancillary agreements; and

the fact that Mariner received a written opinion from its independent financial advisor as to the fairness, from a financial point of view, of the merger consideration.

**The full text of Lehman Brothers' opinion dated September 9, 2005, which sets forth assumptions made, procedures followed, matters considered and limitations upon the review undertaken in connection with the opinion, is included as Annex B to this joint proxy statement/prospectus-information statement. The following is a summary of Lehman Brothers' opinion and the methodology that Lehman Brothers used to render its opinion. This summary is qualified in its entirety by reference to the full text of the opinion.**

**Lehman Brothers' advisory services and opinion were provided for the information and assistance of the board of directors of Mariner in connection with its consideration of the merger. Lehman Brothers' opinion is not intended to be and does not constitute a recommendation to any stockholder of Mariner as to how such stockholder should vote in connection with the merger. Lehman Brothers was not requested to opine as to, and Lehman Brothers' opinion does not in any manner address, Mariner's underlying business decision to proceed with or effect the merger.**

In arriving at its opinion, Lehman Brothers reviewed, among other things:

the merger agreement, the distribution agreement, the other transaction agreements and the specific terms of the merger;

publicly available information concerning Mariner that Lehman Brothers believed to be relevant to its analysis, including, without limitation, the Amendment No. 1 to the Registration Statement on Form S-1 filed on July 26, 2005 by Mariner;

publicly available information concerning Forest that Lehman Brothers believed to be relevant to its analysis, including, without limitation, the Annual Report on Form 10-K for the year ended



**Table of Contents**

December 31, 2004 and the Quarterly Reports on Form 10-Q for the periods ended March 31, 2005 and June 30, 2005;

financial and operating information with respect to the business, operations and prospects of Mariner as furnished to Lehman Brothers by Mariner, including financial projections and oil and gas reserve estimates as of June 30, 2005 for Mariner as prepared by the management of Mariner;

financial and operating information with respect to the Forest Gulf of Mexico operations as furnished to Lehman Brothers by Forest, including financial projections and oil and gas reserve estimates as of June 30, 2005 for the Forest Gulf of Mexico operations as prepared by the management of Forest;

a comparison of the historical financial results and present financial condition of Mariner and the Forest Gulf of Mexico operations with each other and with those of other companies that Lehman Brothers deemed relevant;

a comparison of the financial terms of the merger with the financial terms of certain other transactions that Lehman Brothers deemed relevant;

commodity prices assumptions used by the management of Mariner, commodity prices assumptions published by Lehman Brothers equity research, and commodity prices as quoted on the NYMEX on August 19, 2005 (collectively the Commodity Price Assumptions );

estimates of certain proved reserves generated by third-party reserve engineers as of December 31, 2004 for Mariner and the Forest Gulf of Mexico operations;

the potential pro forma impact of the merger on the current financial condition and future financial performance of Mariner, including the impact on Mariner's operating metrics, including, the composition of its reserves between oil and gas; the percentage of reserves attributable to onshore, the shelf of the Gulf of Mexico and deepwater Gulf of Mexico; and the ratio of reserves as of June 30, 2005 to 2005 expected production;

the relative contributions of Mariner and the Forest Gulf of Mexico operations to the current and future financial performance of the combined company on a pro forma basis;

the report dated as of September 9, 2005, prepared by the management of Mariner, assessing the damage to the Gulf of Mexico assets of Mariner caused by Hurricane Katrina; and

the report dated as of September 9, 2005, prepared by the management of Forest, assessing the damage to the Gulf of Mexico assets of the Forest Gulf of Mexico operations caused by Hurricane Katrina.

In addition, Lehman Brothers had discussions with the managements of Mariner and Forest concerning their respective businesses, operations, assets, financial conditions, reserves, production profiles, hedging levels, exploration programs and prospects of Mariner and the Forest Gulf of Mexico operations and undertook such other studies, analyses and investigations as Lehman Brothers deemed appropriate.

In arriving at its opinion, Lehman Brothers assumed and relied upon the accuracy and completeness of the financial and other information used by Lehman Brothers without assuming any responsibility for independent verification of such information. Lehman Brothers further relied upon the assurances of the managements of Mariner and Forest that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. With respect to the financial projections of Mariner, upon advice of Mariner, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Mariner as to the future financial performance of Mariner and that Mariner would perform substantially in accordance with such projections. With respect to the financial projections of the Forest Gulf

of Mexico operations, upon advice of Forest, Lehman Brothers assumed that such projections were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of Forest as to the future financial performance of the Forest Gulf of Mexico operations and that the Forest Gulf of Mexico operations would perform substantially in accordance with such projections. However, in the course of its analysis and in arriving at its opinion, Lehman Brothers also considered the various Commodity Price Assumptions, which

**Table of Contents**

resulted in certain adjustments to the projections of Mariner and the Forest Gulf of Mexico operations. Lehman Brothers discussed these adjusted projections with the management of Mariner and they agreed with the appropriateness of the use of such adjusted projections, as well as Forest's management projections, in performing its analysis.

In arriving at its opinion, Lehman Brothers did not conduct a physical inspection of the properties and facilities of Mariner and the Forest Gulf of Mexico operations and did not make or obtain from third parties any evaluations or appraisals of the assets and liabilities of Mariner or the Forest Gulf of Mexico operations. Lehman Brothers' opinion is necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion letter.

In arriving at its opinion, Lehman Brothers did not ascribe a specific range of value to Mariner or the Forest Gulf of Mexico operations, but rather made its determination as to the fairness to Mariner, from a financial point of view, of the exchange ratio in the merger on the basis of the financial, comparative and other analyses described below. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial, comparative and other analyses and the application of those methods to the particular circumstances, and, therefore, such an opinion is not readily susceptible to summary description. Furthermore, in arriving at its fairness opinion, Lehman Brothers did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Lehman Brothers believes that its analyses must be considered as a whole and that considering any portion of such analyses and factors considered, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying the opinion. In its analyses, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Mariner or Forest. Any estimates contained in the analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than as set forth in the analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses could actually be sold.

The following is a summary of the material financial analyses used by Lehman Brothers in connection with providing its opinion to Mariner's board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the methodologies used by Lehman Brothers and the results of financial, comparative and other analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial, comparative and other analyses. Considering any portion of such analyses and of the factors considered, without considering all analyses and factors as a whole, could create a misleading or incomplete view of the process underlying Lehman Brothers' opinion.**

***Valuation Analyses Used to Derive Implied Exchange Ratios***

Lehman Brothers separately analyzed the value of Mariner and the Forest Gulf of Mexico operations in accordance with the following methodologies: net asset valuation analysis, comparable company analysis and comparable transaction analysis. Each of these methodologies was used to generate a reference enterprise value range for each of Mariner and the Forest Gulf of Mexico operations. The enterprise value range for each entity was adjusted for appropriate on- and off-balance sheet assets and liabilities to arrive at a common equity value range (in aggregate dollars) for each entity. The equity value range for each entity was used to derive implied exchange ratios which were then compared to the exchange ratio agreed to in the merger. The implied exchange ratios, derived using the various valuation methodologies listed, supported the conclusion that the exchange ratio agreed to in the merger was fair to Mariner from a financial point of view.

**Table of Contents**

The various valuation methodologies noted above and the implied exchange ratios derived therefrom are included in the following table. **This table should be read together with the more detailed descriptions set forth below.** In particular, in applying the various valuation methodologies to the particular businesses, operations and prospects of Mariner and the Forest Gulf of Mexico operations, and the particular circumstances of the merger, Lehman Brothers made qualitative judgments as to the significance and relevance of each analysis. In addition, Lehman Brothers made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Mariner or Forest. Accordingly, the methodologies and the implied exchange ratios derived therefrom set forth in the table must be considered as a whole and in the context of the narrative description of the financial analyses, including the assumptions underlying these analyses. Considering the implied exchange ratios set forth in the table without considering the full narrative description of the financial analyses, including the assumptions underlying these analyses, could create a misleading or incomplete view of the process underlying, and conclusions represented by, Lehman Brothers' opinion.

<b>Valuation Methodology</b>	<b>Summary Description of Valuation Methodology</b>	<b>Implied Exchange Ratio Range*</b>
Net Asset Valuation Analysis	Net present valuation of after-tax cash flows generated by producing to exhaustion existing proved reserves, using selected hydrocarbon pricing scenarios and discount rates plus the evaluation of probable and possible reserves and certain other assets and liabilities	
	Case I Commodity Prices	0.84 - 1.11
	Case II Commodity Prices	0.95 - 1.30
	Case III Commodity Prices	0.88 - 1.14
Comparable Company Analysis	Market valuation benchmark based on trading multiples of selected comparable companies for selected financial and asset-based measures	0.78 - 1.14
Comparable Transactions Analysis	Market valuation benchmark based on consideration paid in selected comparable transactions	0.80 - 1.32
Exchange Ratio in the Merger		1.00*

\* Shares of Forest Energy Resources will be exchanged for shares of Mariner on a one-for-one basis. The exchange ratio represents the number of Mariner shares to be issued in the merger for each Forest Energy Resources share. As a result of this exchange ratio and the number of shares of Forest Energy Resources to be issued in the spin-off, Forest shareholders will receive approximately 0.8 shares of Mariner common stock for each share of Forest common stock they own and cash in lieu of any fractional shares.

**Net Asset Valuation Analysis**

Lehman Brothers estimated the present value of the future after-tax cash flows expected to be generated from each entity's proved reserves as of June 30, 2005, based on estimated reserves and production cost estimates. The present values of the future after-tax cash flows were determined using a range of discount rates and risk factors based on geography and reserve category risk and assuming a tax rate of 35%. Lehman Brothers added to such estimated proved reserves the estimated values of certain other assets and liabilities, including each of Mariner's and the Forest Gulf of Mexico operations' probable and possible reserves, each of Mariner's and the Forest Gulf of Mexico operations' exploration portfolio, and each of Mariner's and the Forest Gulf of Mexico operations' current commodity hedging portfolio. The net asset valuation analysis was performed under three commodity price scenarios (Case I, Case II and

Case III), which are described below.

**Table of Contents**

Certain of the natural gas and oil price forecasts employed by Lehman Brothers were based on New York Mercantile Exchange, or NYMEX, price forecasts (Henry Hub, Louisiana delivery for natural gas and West Texas Intermediate, Cushing, Oklahoma delivery for oil) from which adjustments were made to reflect location and quality differentials. NYMEX gas price quotations are stated in heating value equivalents per million British Thermal Units, or MMBtu, which are adjusted to reflect the value per thousand cubic feet, or MCF, of gas. NYMEX oil price quotations are stated in dollars per barrel, or BBL, of crude oil. In addition to the NYMEX prices, Lehman Brothers considered the impact of a flat pricing scenario in which we employed natural gas and oil prices of \$5.00 per MMBtu, and \$45.00 per BBL respectively. In another pricing scenario, we valued the proved developed producing reserves using NYMEX pricing and all other categories using \$5.00 per MMBtu and \$45.00 per BBL for gas and oil, respectively. The table below presents a summary of natural gas and oil price forecasts employed by Lehman Brothers for each commodity price scenario.

	2005E	2006E	2007E	2008E	2009E	2010E	Escalation Thereafter
<b>Natural Gas (\$MMBtu)</b>							
Case I: All reserve classifications	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	0.0%
Case II:							
Proved developed producing reserves	\$ 9.24	\$ 8.89	\$ 8.29	\$ 7.85	\$ 7.47	\$ 7.14	0.0%
All other reserve classifications	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00	0.0%
Case III: All reserve classifications	\$ 9.24	\$ 8.89	\$ 8.29	\$ 7.85	\$ 7.47	\$ 7.14	0.0%
<b>Oil (\$/BBL)</b>							
Case I: All reserve classifications	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	0.0%
Case II:							
Proved developed producing reserves	\$ 64.06	\$ 64.81	\$ 62.71	\$ 60.55	\$ 59.15	\$ 58.45	0.0%
All other reserve classifications	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	\$ 45.00	0.0%
Case III: All reserve classifications	\$ 64.06	\$ 64.81	\$ 62.71	\$ 60.55	\$ 59.15	\$ 58.45	0.0%

The net asset valuation analyses yielded valuations for Mariner and the Forest Gulf of Mexico operations that implied a range of exchange ratios of 0.84 to 1.11 for Case I, a range of exchange ratios of 0.95 to 1.30 for Case II and a range of exchange ratios of 0.88 to 1.14 for Case III.

**Comparable Company Analysis**

With respect to Mariner, Lehman Brothers reviewed the public stock market trading multiples for the following exploration and production companies, which Lehman Brothers selected because their businesses and operating profiles are reasonably similar to that of Mariner:

Boisd Arc Energy, Inc.

Comstock Resources, Inc.

Energy Partners, Ltd.

The Houston Exploration Company

Remington Oil and Gas Corporation

Spinnaker Exploration Company



Stone Energy Corporation

W&T Offshore, Inc.

As part of its comparable company analysis, Lehman Brothers calculated and analyzed Mariner's and each comparable company's equity and adjusted capitalization multiples of certain historical and projected financial and operating criteria (such as earnings before interest, taxes, depreciation, depletion, amortization and exploration expense, or EBITDE; net income; discretionary cash flow, or DCF; proved reserves; and daily production). The adjusted capitalization of each comparable company was obtained by adding its total debt to

**Table of Contents**

the sum of the market value of its common equity, the book value of its preferred stock and the book value of any minority interest minus its cash balance. The ratios of each comparable company of adjusted capitalization to proved reserves and to daily production were calculated by excluding from each selected company's adjusted capitalization calculation, an estimate of the value of non-proved reserves and other businesses that are unrelated to exploration and production of oil and gas.

Based on a review of the multiples derived for the comparable companies, Lehman Brothers selected multiple ranges to apply to Mariner's corresponding financial and operating statistics. The selected multiple ranges applied to Mariner's projected 2005 and projected 2006 EBITDE statistics were 3.5x to 4.0x and 3.4x to 3.9x, respectively. The selected multiple ranges applied to Mariner's projected 2005 and projected 2006 earnings statistics were 8.0x to 10.0x and 8.0 to 10.0x, respectively. The selected multiple ranges applied to Mariner's projected 2005 and projected 2006 DCF statistics were 3.0x to 3.5x and 2.8 to 3.3x, respectively. The selected multiple ranges applied to Mariner's proved reserve statistics were \$15.00 to \$18.00 per barrel of oil equivalent, referred to as BOE, and \$2.50 to \$3.00 per thousand cubic feet equivalent, referred to as Mcfe. The selected multiple ranges applied to Mariner's daily production statistics were \$48,000 to \$60,000 per thousand barrels of oil equivalent produced per day, referred to as MBOE/d, and \$8,000 to \$10,000 per million cubic feet equivalent produced per day, referred to as Mmcf/d. For the proved reserves and daily production multiples, an estimate of the value of Mariner's non-proved reserves (including probable and possible reserves and Mariner's exploration portfolio) was added to the analysis. All of these calculations were performed, and based on publicly available financial data, including independent equity research analyst estimates, and closing prices as of September 8, 2005, the last trading date prior to the delivery of Lehman Brothers' opinion.

With respect to the Forest Gulf of Mexico operations, Lehman Brothers reviewed the public stock market trading multiples for the following exploration and production companies, which Lehman Brothers selected because their businesses and operating profiles are reasonably similar to that of the Forest Gulf of Mexico operations:

Boisd Arc Energy, Inc.

Energy Partners, Ltd.

The Houston Exploration Company

Remington Oil and Gas Corporation

Spinnaker Exploration Company

Stone Energy Corporation

W&T Offshore, Inc.

As part of its comparable company analysis, Lehman Brothers calculated and analyzed the Forest Gulf of Mexico operations' and each comparable company's equity and adjusted capitalization multiples of certain historical and projected financial and operating criteria (such as EBITDE, net income, DCF, proved reserves, and daily production). The adjusted capitalization of each comparable company was obtained by adding its total debt to the sum of the market value of its common equity, the book value of its preferred stock and the book value of any minority interest minus its cash balance. The ratios of each comparable company of adjusted capitalization to proved reserves and to daily production were calculated by excluding from each selected company's adjusted capitalization calculation, an estimate of the value of non-proved reserves and other businesses that are unrelated to exploration and production of oil and gas.

Based on a review of the multiples derived for the comparable companies, Lehman Brothers selected multiple ranges to apply to the Forest Gulf of Mexico operations' corresponding financial and operating statistics. The selected multiple ranges applied to the Forest Gulf of Mexico operations' projected 2005 and projected 2006 EBITDE statistics were 3.0x to 3.5x and 2.9x to 3.4x, respectively. The selected multiple ranges applied to the Forest Gulf of Mexico

operations projected 2005 and projected 2006 earnings statistics were 8.0x to 10.0x and 8.5 to 10.5x, respectively. The selected multiple ranges applied to the Forest Gulf of

**Table of Contents**

Mexico operations projected 2005 and projected 2006 DCF statistics were 2.8x to 3.3x and 2.6 to 3.1x, respectively. The selected multiple ranges applied to the Forest Gulf of Mexico operations proved reserve statistics were \$18.00 to \$21.00 per BOE and \$3.00 to \$3.50 per Mcfe. The selected multiple ranges applied to the Forest Gulf of Mexico operations daily production statistics were \$30,000 to \$42,000 per MBOE/d and \$5,000 to \$7,000 per Mmcf/d. For the proved reserves and daily production multiples, an estimate of the value of the Forest Gulf of Mexico operations non-proved reserves (including probable and possible reserves and the Forest Gulf of Mexico operations exploration portfolio) was added to the analysis. All of these calculations were performed, and based on publicly available financial data, including independent equity research analyst estimates, and closing prices as of September 8, 2005, the last trading date prior to the delivery of Lehman Brothers opinion.

The comparable company methodology yielded valuations for Mariner and the Forest Gulf of Mexico operations that implied a range of exchange ratios of 0.78 to 1.14.

Because of the inherent differences between the corporate structure, businesses, operations, commodity mix and prospects of Mariner and the Forest Gulf of Mexico operations and the corporate structure, businesses, operations, commodity mix and prospects of the selected comparable companies, Lehman Brothers believed that it was inappropriate to, and therefore did not rely solely on the quantitative results of the comparable company analysis. Accordingly, Lehman Brothers also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of Mariner and the Forest Gulf of Mexico operations and the companies included in the comparable company analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between Mariner and the Forest Gulf of Mexico operations and the companies included in the comparable company analysis.

***Comparable Transactions Analysis***

Lehman Brothers conducted a comparable transactions analysis to assess how similar transactions were valued. In the case of Mariner, Lehman Brothers reviewed certain publicly available information on selected corporate level exploration and production transactions it deemed comparable to the merger, in whole or in part, which were announced from January 2001 to September 2005. The transactions included, but were not limited to:

Petrohawk Energy Corporation/Mission Resources Corporation

Cimarex Energy Company/Magnum Hunter Resources, Inc.

Noble Energy Inc./Patina Oil & Gas Corporation

EnCana Corporation/Tom Brown, Inc.

Kerr-McGee Corporation/Westport Resources Corporation

For the corporate transactions analysis, for each comparable transaction, relevant transaction multiples were analyzed including the transaction value (equity purchase price plus assumed obligations) divided by proved reserves and daily production. The selected multiple ranges applied to Mariner's proved reserve statistic were \$13.50 to \$16.50 per BOE and \$2.25 to \$2.75 per Mcfe. The selected multiple ranges applied to Mariner's daily production multiple ranges were \$45,000 to \$57,000 per MBOE/d and \$7,500 to \$9,500 per Mmcf/d. For the proved reserves and daily production multiples, an estimate of the value of Mariner's non-proved reserves (including probable and possible reserves and Mariner's exploration portfolio).

In the case of the Forest Gulf of Mexico operations, Lehman Brothers reviewed certain publicly available information on selected corporate level exploration and production transactions it deemed comparable to the

**Table of Contents**

merger, in whole or in part, which were announced from January 2001 to September 2005. The transactions included, but were not limited to:

Cimarex Energy Company/Magnum Hunter Resources, Inc.

Noble Energy Inc./Patina Oil & Gas Corporation

EnCana Corporation/Tom Brown, Inc.

Kerr-McGee Corporation/Westport Resources Corporation

For the corporate transactions analysis for each company, relevant transaction multiples were analyzed including the corresponding transaction values (equity purchase price plus assumed obligations) divided by proved reserves and daily production. The selected multiple ranges applied to the Forest Gulf of Mexico operations proved reserve statistics were \$18.00 to \$21.00 per BOE and \$3.00 to \$3.50 per Mcfe. The selected multiple ranges applied to the Forest Gulf of Mexico operations daily production statistic were \$30,000 to \$36,000 per MBOE/d and \$5,000 to \$6,000 per Mmcf/d. For the proved reserves and daily production multiples, an estimate of the value of the Forest Gulf of Mexico operations non-proved reserves (including probable and possible reserves and the Forest Gulf of Mexico operations exploration portfolio).

The comparable transactions methodology yielded valuations for Mariner and the Forest Gulf of Mexico operations that implied a range of exchange ratios of 0.80 to 1.32.

Because the market conditions, rationale and circumstances surrounding each of the transactions analyzed were specific to each transaction and because of the inherent differences between the businesses, operations and prospects of Mariner and the Forest Gulf of Mexico operations and the acquired businesses analyzed, Lehman Brothers believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the analysis and, accordingly, also made qualitative judgments concerning differences between the characteristics of these transactions and the merger that could affect the acquisition values of such acquired companies or companies to which they are being compared.

***Contribution Analysis***

Lehman Brothers analyzed the relative income statement contribution of Mariner and the Forest Gulf of Mexico operations to the combined company based on 2005 and 2006 financial data as projected by the managements of Mariner and Forest, respectively. The contribution analysis treats all cash flow and earnings the same regardless of capitalization, expected growth rates, upside potential or risk profile.

This analysis indicated that Mariner will contribute approximately 39.5% to 51.5% of the combined company's net income and 35.8% to 44.6% of the combined company's DCF for the periods analyzed. This analysis indicated that the Forest Gulf of Mexico operations will contribute approximately 48.5% to 60.5% of the combined company's net income and 55.4% to 64.2% of the combined company's DCF for the periods analyzed.

***Pro Forma Merger Consequences Analysis***

Lehman Brothers analyzed the pro forma impact of the merger on Mariner's projected 2005 and 2006 earnings per share and DCF per share. Lehman Brothers prepared a pro forma merger model which incorporated the financial projections of Mariner and the Forest Gulf of Mexico operations as provided by the managements of Mariner and Forest, respectively. Lehman Brothers then compared the earnings per share and DCF per share of Mariner on a standalone basis to the earnings per share and DCF per share of Mariner pro forma for the merger. Lehman Brothers noted that the merger is expected to be dilutive to earnings per share and accretive to DCF per share in 2005 and is expected to be dilutive to both earnings and DCF per share in 2006.

**Table of Contents**

***General***

Lehman Brothers is an internationally recognized investment banking firm and, as part of its investment banking activities, is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Mariner's board of directors selected Lehman Brothers because of its expertise, reputation and familiarity with Mariner and the energy industry generally and because its investment banking professionals have substantial experience in transactions comparable to the merger.

Pursuant to the terms of an engagement letter dated August 9, 2005 between Lehman Brothers and Mariner, Mariner paid Lehman Brothers a fee upon delivery of Lehman Brothers' opinion, dated September 9, 2005. Mariner has also agreed to pay Lehman Brothers an additional fee at the time of closing. Mariner also has agreed to reimburse Lehman Brothers for its reasonable expenses incurred in connection with this engagement, and to indemnify Lehman Brothers and certain related persons against certain liabilities that may arise out of its engagement by Mariner and the rendering of the Lehman Brothers' opinion. The estimated aggregate compensation Lehman Brothers will receive in connection with the merger is \$3.0 million, of which \$1.0 million was contingent on the execution of a merger agreement and an additional \$1.25 million is contingent on the consummation of the merger. Lehman Brothers in the past has rendered investment banking services to Mariner and Forest and received customary fees for such services. Lehman Brothers has provided no financing advisory or other financing services to Mariner during the past two years. In July 2004 Lehman Brothers participated as an underwriter in a senior note offering of Forest. Lehman Brothers' aggregate compensation for the transaction was \$72,000.

During the course of its engagement, representatives of Lehman Brothers participated in discussions with members of Mariner's senior management regarding the rationale for, benefits of and risks and uncertainties relating to the merger. Among the benefits discussed with senior management were the economies of scale and the portfolio management opportunities provided by the increases to proved reserves and undeveloped acreage, the potential reduction in volatility related to deepwater projects, and increased visibility in the capital markets. Among the uncertainties discussed with senior management were those related to current high commodity prices and the possibility that probable and possible reserves of the acquired operations may never be converted to proved developed reserves.

In the ordinary course of its business, Lehman Brothers may actively trade in the debt or equity securities of Mariner and Forest for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

**The Spin-Off**

On September 12, 2005, Forest announced that Forest would spin-off to its shareholders the Forest Gulf of Mexico operations, and that the Forest Gulf of Mexico operations would immediately thereafter be acquired in a merger transaction by Mariner. Forest is carrying out the spin-off to facilitate Mariner's acquisition of the Forest Gulf of Mexico operations and the spin-off is a condition to the merger. After the spin-off and merger, Mariner will be a separately traded public company that will own and operate the combination of Mariner's business and the Forest Gulf of Mexico operations.

As a result of the transaction, in addition to retaining all of their shares of Forest common stock, Forest shareholders will receive approximately 0.8 shares of Mariner common stock for each share of Forest common stock owned on the record date of the transaction. Forest shareholders will receive approximately 58% of the common stock of Mariner on a pro forma basis. Mariner has applied to list its common stock on the New York Stock Exchange.

While Forest believes the spin-off will allow Forest shareholders to benefit from the success and upside potential of Mariner, there are risks that are described under "Risks Factors" beginning on page 23 of this proxy statement/prospectus-information statement.

## **Table of Contents**

Forest's board of directors has determined that the spin-off of the Gulf of Mexico operations and the combination of these operations with Mariner are advisable and in the best interests of Forest and its shareholders, and has approved the proposed transaction. Forest's board of directors has the corporate authority under New York law to effect a spinoff of the stock of a subsidiary such as Forest Energy Resources that represents less than substantially all the assets of Forest. Under Delaware law, Forest, as the sole stockholder of Forest Energy Resources, has the authority to approve, and has approved, the merger of MEI Sub with and into Forest Energy Resources. Forest shareholders need not take any action to participate in the spin-off or the merger—no vote of Forest shareholders is required in connection with this transaction.

As of December 1, 2005, Forest has transferred and contributed the assets and certain liabilities associated with the Forest Gulf of Mexico operations to Forest Energy Resources pursuant to the terms of the distribution agreement. The distribution agreement is attached as Annex C to this proxy statement/prospectus-information statement. See *The Distribution Agreement* beginning on page 87. Immediately prior to the merger, Forest will spin off Forest Energy Resources by distributing all of the shares of Forest Energy Resources common stock to Forest shareholders on a pro rata basis. MEI Sub will then be merged with and into Forest Energy Resources in accordance with the terms of the merger agreement, with the result being that Forest Energy Resources will become a wholly owned subsidiary of Mariner. The merger agreement is attached as Annex A to this proxy statement/prospectus-information statement. See *The Spin-Off and Merger* beginning on page 40 and *The Merger Agreement* beginning on page 73.

The distribution of Forest Energy Resources common stock will take the form of a special stock dividend to Forest shareholders of record on the record date for the dividend. Forest shareholders who are entitled to receive shares of Forest Energy Resources will be mailed book-entry statements evidencing their shares of Forest Energy Resources. Upon completion of the merger, the exchange of Forest Energy Resources shares and Mariner shares will be effected through book-entry (with cash paid in lieu of any fractional shares), without the exchange of physical share certificates. Forest shareholders will not be required to pay for the shares of Forest Energy Resources common stock that they receive in the spin-off or the shares of Mariner common stock that they receive in the merger. The distribution of the Forest Energy Resources shares will not alter the number of outstanding shares of Forest common stock, and Forest shareholders should not send in their stock certificates representing shares of Forest common stock.

### **Stock Exchange Listing**

Mariner has applied to list its common stock on the New York Stock Exchange.

### **Certificate of Incorporation and By-Laws**

The proposed amendment to Mariner's certificate of incorporation is in the form attached as Annex E to this proxy statement/prospectus-information statement. Following the merger, the certificate of incorporation and by-laws of Mariner would differ from the current certificate of incorporation and by-laws only with respect to the number of authorized shares of stock, which pursuant to the proposed amendment would be increased from 90 million to 200 million.

### **Material United States Federal Tax Consequences of the Spin-Off and the Merger**

#### ***Scope of the Discussion***

The following discussion summarizes certain material U.S. tax consequences of the spin-off to Forest and its shareholders, and the merger to Mariner stockholders and to stockholders of Forest Energy Resources at the effective time of the merger. It is a condition to the completion of the spin-off that Forest receive an opinion from Weil, Gotshal & Manges LLP, tax counsel to Forest, to the effect that the spin-off will generally qualify as a distribution that is tax-free under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended. The discussion below of the *Material U.S. Tax Consequences of the Spin-Off* represents the further opinion of Weil, Gotshal & Manges LLP of the tax consequences of the spin-off that will follow from the distribution qualifying as tax-free under Sections 355 and Section 368 of the Internal Revenue Code. It is a condition to the completion of the merger that Forest and Forest Energy Resources receive an opinion from

**Table of Contents**

Weil, Gotshal & Manges LLP, tax counsel to Forest and to Forest Energy Resources, and that Mariner receive an opinion from Baker Botts L.L.P., tax counsel to Mariner, in both cases dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. The discussion below of the Material U.S. Tax Consequences of the Merger represents the further opinions of Weil, Gotshal & Manges LLP and Baker Botts L.L.P. of the tax consequences of the merger that will follow from the merger qualifying as a reorganization under Section 368(a) of the Internal Revenue Code.

This discussion is based upon existing U.S. tax law, including legislation, regulations, administrative rulings and court decisions, as in effect on the date of this proxy statement/ prospectus-information statement, all of which are subject to change, possibly with retroactive effect.

For purposes of this discussion:

a U.S. holder is a beneficial owner of Forest, Forest Energy Resources or Mariner common stock that is (1) an individual citizen or resident of the U.S., (2) a corporation or any other entity taxable as a corporation created or organized in or under the laws of the U.S. or of a state of the U.S. or the District of Columbia, (3) a trust (i) in respect of which a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantive decisions of the trust or (ii) that was in existence on August 20, 1996 and validly elected to continue to be treated as a domestic trust, or (4) an estate that is subject to U.S. tax on its worldwide income from all sources;

a non-U.S. holder is any holder of Forest, Forest Energy Resources or Mariner common stock other than a U.S. holder; and

the term U.S. tax means U.S. federal income tax under the Internal Revenue Code of 1986, as amended.

The discussion assumes that holders hold their Forest, Forest Energy Resources or Mariner common stock, as applicable, as capital assets. Other tax consequences may apply to holders who are subject to special treatment under U.S. tax or U.S. federal estate tax law, such as:

tax exempt organizations;

financial institutions, insurance companies and broker-dealers;

holders who hold their Forest, Forest Energy Resources or Mariner common stock, as applicable, as part of a hedge, straddle, wash sale, synthetic security, conversion transaction or other integrated investment comprised of Forest, Forest Energy Resources or Mariner common stock and one or more other investments;

mutual funds;

holders that have a functional currency other than the U.S. dollar;

traders in securities who elect to apply a mark-to-market method of accounting;

holders who acquired their shares in compensatory transactions;

holders who are subject to the alternative minimum tax; or

non-U.S. holders who are or have previously been engaged in the conduct of a trade or business in the U.S. or who have ceased to be U.S. citizens or to be taxed as resident aliens.

In the case of a stockholder that is a partnership, determinations as to tax consequences will generally be made at the partner level, but other special considerations not described may apply. The discussion is generally limited to U.S. federal income and estate tax considerations and does not address other U.S. federal tax considerations or state,



local or foreign tax considerations.

**Table of Contents**

The opinions of counsel referred to above to be delivered at closing will be, and the opinions of counsel set forth herein are, based on present law, which is subject to change, possibly with retroactive effect. In providing their opinions at the closing of the spin-off and the merger, counsel will make customary assumptions and rely upon the accuracy of certain representations made to them by Forest, Forest Energy Resources, and Mariner, in officers certificates. In addition, counsel will rely upon the accuracy of the information in this proxy statement/prospectus-information statement and in other documents filed by Mariner and by Forest with the SEC and upon other information provided to them by Mariner and Forest. Any change in present law, or the failure of factual assumptions or representations to be true, correct and complete in all respects, could affect the continuing validity of counsels' tax opinions. The conditions to the completion of the spin-off and merger relating to the receipt of the tax opinions may not be waived by Forest or Mariner after receipt of the Mariner shareholder approval unless further shareholder approval is obtained with appropriate disclosure. If any condition relating to the receipt of a tax opinion is waived, Mariner will recirculate a proxy statement/prospectus and will resolicit proxies of the Mariner stockholders if there is a material change in the tax consequences of the spin-off or the merger. No ruling will be requested from the Internal Revenue Service on any aspect of the proposed transactions. An opinion of counsel represents counsel's best legal judgment and is not binding on the Internal Revenue Service or any court. Accordingly, there can be no assurance that the Internal Revenue Service will agree with the conclusions set forth herein or in the opinion letters to be delivered at closing, and it is possible that the Internal Revenue Service or another tax authority could assert a position contrary to one or all of those conclusions and that a court could sustain that contrary position.

**This summary is not a substitute for an individual analysis of the tax consequences of the proposed transaction to a Forest, Forest Energy Resources or Mariner stockholder. Each Forest, Forest Energy Resources or Mariner stockholder is urged to consult a tax adviser as to the U.S. tax consequences of the proposed transactions, including any consequences arising from the particular facts and circumstances of the Forest, Forest Energy Resources or Mariner stockholder, and as to any estate, gift, state, local or foreign tax consequences of the proposed transaction.**

***Material U.S. Tax Consequences of the Spin-Off***

The spin-off is conditioned upon receipt by Forest of an opinion from Weil, Gotshal & Manges LLP, to the effect that the spin-off will generally qualify as a distribution that is tax-free under Sections 355 and 368 of the Internal Revenue Code of 1986, as amended. **Weil, Gotshal & Manges LLP is of the opinion that the U.S. federal income tax consequences of such treatment will be that:**

a Forest shareholder will not recognize any income, gain or loss as a result of the spin-off;

a Forest shareholder's aggregate tax basis for his or her Forest common stock on which Forest Energy Resources common stock is distributed and the Forest Energy Resources common stock received by such shareholder in the spin-off will be the same as the tax basis of Forest common stock held by such shareholder immediately prior to the spin-off. A Forest shareholder's aggregate tax basis will be allocated between his or her Forest common stock and Forest Energy Resources common stock received in the spin-off in proportion to the relative fair market value of the Forest common stock and Forest Energy Resources common stock on the spin-off date;

a Forest shareholder's holding period for the Forest Energy Resources common stock received in the spin-off will include the holding period of the Forest common stock on which the distribution is made; and

Forest will not recognize any income, gain or loss on the spin-off, other than with respect to any excess loss account or intercompany transaction required to be taken into account by Forest under the Treasury regulations relating to consolidated returns. It is also possible that Forest may recognize income with respect to certain cash received from Forest Energy Resources under the distribution agreement.

There are numerous requirements that must be satisfied in order for the spin-off to be accorded tax-free treatment under the Internal Revenue Code. If the spin-off were not to qualify as tax-free under Sections 355



**Table of Contents**

and 368 of the Internal Revenue Code, Forest would be required to recognize gain equal to the excess of the fair market value of the Forest Energy Resources common stock distributed to its shareholders over Forest's tax basis in the Forest Energy Resources common stock. Additionally, each Forest shareholder would be treated as if such shareholder had received a distribution in an amount equal to the fair market value of the Forest Energy Resources common stock received, taxed as a dividend to the extent of Forest's current and accumulated earnings and profits (including earnings and profits arising from the gain to Forest described above) and then treated as a non-taxable return of capital to the extent of the holder's tax basis in the Forest common stock and thereafter as capital gain from the sale or exchange of Forest common stock. Under current law, individual citizens or residents of the U.S. are subject to U.S. federal income tax on dividends at a maximum rate of 15% (assuming holding period and other requirements are met) and long-term capital gains (i.e., capital gains on assets held for more than one year) at a maximum rate of 15%.

Even if the spin-off otherwise qualifies for tax-free treatment under Sections 355 and 368 of the Internal Revenue Code, the distribution of Forest Energy Resources common stock to Forest shareholders may be disqualified as tax-free to Forest under Section 355(e) of the Internal Revenue Code if 50% or more of the stock of Forest, Forest Energy Resources or Mariner is acquired as part of a plan or series of related transactions that include the spin-off. For purposes of this test, any acquisitions of Forest stock or Forest Energy Resources stock within two years before or after the spin-off, and any acquisitions of Mariner stock within two years after the spin-off, are presumed to be part of such a plan, although Forest, Forest Energy Resources or Mariner may be able to rebut that presumption. Also, for purposes of this test, the merger will already be treated as resulting in a deemed acquisition by Mariner stockholders of approximately 42% of Forest Energy Resources common stock. Under U.S. Treasury Regulations, certain safe harbors exist under which certain issuances of shares of Mariner and Forest Energy Resources will not be deemed part of the same plan as the spin-off. Among other safe harbors, safe harbors exist for transactions if specific timing conditions are met as to when agreements or substantial negotiations relating to such transactions occur, and a safe harbor exists for certain issuances pursuant to compensatory employment-related arrangements. The process for determining whether a change of ownership has occurred under the tax rules is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. If an acquisition of Forest stock, Forest Energy Resources stock or Mariner stock results in the application of Section 355(e) of the Internal Revenue Code, Forest would recognize taxable gain as described in the preceding paragraph but the spin-off would generally be tax-free to each Forest shareholder. Pursuant to the tax sharing agreement, depending on the event, Forest may have to indemnify Mariner, or Mariner may have to indemnify Forest, for some or all of the taxes resulting from the spin-off. See Ancillary Agreements Tax Sharing Agreement beginning on page 90.

The tax sharing agreement entered into by Forest, Forest Energy Resources and Mariner imposes ongoing restrictions on Forest, Forest Energy Resources and Mariner to ensure that applicable statutory requirements under the Internal Revenue Code and applicable Treasury regulations continue to be met so that the spin-off remains tax-free to Forest and its shareholders. As a result of these restrictions, the ability of Mariner to engage in certain transactions, such as the redemption of its common stock, the issuance of equity securities and the utilization of its stock as currency in an acquisition, will be limited for a period of up to two years following the spin-off. These restrictions may reduce the ability of Mariner under certain circumstances to engage in certain business transactions that otherwise might be advantageous to Mariner and its stockholders and could have a negative impact on its business and stockholder value. If the spin-off became taxable, Forest would be expected to recognize a substantial amount of taxable income, which would result in a material amount of taxes. Depending on the circumstances, the tax sharing agreement allocates to Forest or Mariner all, or a portion of, any tax liability resulting from the spin-off being taxable. Any such taxes allocated to Mariner would be expected to be material to Mariner. This proxy statement/prospectus-information statement summarizes certain effects of the tax sharing agreement on Mariner and Mariner stockholders. See Ancillary Agreements Tax Sharing Agreement beginning on page 90. Mariner stockholders are encouraged to read the summary and the tax sharing agreement in its entirety for a more complete discussion of these tax matters.



**Table of Contents**

Current Treasury regulations require each Forest shareholder who receives Forest Energy Resources common stock pursuant to the spin-off to attach to his or her federal income tax return for the year in which the spin-off occurs a detailed statement setting forth such data as may be appropriate in order to show the applicability of Section 355 of the Internal Revenue Code. Forest will provide the appropriate information to each shareholder of record as of the record date.

***Material U.S. Tax Consequences of the Merger***

It is a condition to the consummation of the merger that:

Mariner receive an opinion from Baker Botts L.L.P., dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; and

Forest and Forest Energy Resources receive an opinion from Weil, Gotshal & Manges LLP, tax counsel to Forest, dated as of the effective date of the merger, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

**Baker Botts L.L.P. is of the opinion that the U.S. federal income tax consequences of such treatment will be that:**

a Mariner stockholder will not recognize gain or loss pursuant to the merger, and such holder's tax basis and holding period in Mariner common stock will not be affected by the merger;

**Baker Botts L.L.P. and Weil, Gotshal & Manges LLP are of the opinion that the U.S. federal income tax consequences of such treatment will be that:**

a Forest Energy Resources stockholder who exchanges Forest Energy Resources common stock solely for Mariner common stock in the merger will not recognize gain or loss except, as described below, to the extent of any cash received in lieu of fractional shares of Mariner common stock;

the aggregate tax basis in the Mariner common stock a Forest Energy Resources stockholder receives in the merger (including any fractional shares for which cash is received) will be the same as his or her aggregate tax basis in the Forest Energy Resources common stock surrendered in the merger;

the holding period of the Mariner common stock received in the merger by a holder of Forest Energy Resources common stock (including any fractional shares for which cash is received) will include the holding period of Forest Energy Resources common stock that such stockholder surrendered in the merger; and

a Forest Energy Resources stockholder who receives fractional share proceeds as a result of the sale of shares of Mariner common stock by the transfer agent will be treated as if such fractional share had been received by the shareholder as part of the merger and then sold by such stockholder. Accordingly, such stockholder will recognize capital gain or loss equal to the difference between the cash so received and the portion of the tax basis in Mariner common stock that is allocable to such fractional share. Any such capital gain or loss will be treated as a long-term or short-term capital gain or loss based on the holder's holding period for the Mariner common stock (as determined above). Non-U.S. holders who receive fractional share proceeds may be subject to withholding tax with respect to the fractional share proceeds under special rules governing the disposition of interests in a United States real property holding corporation.

Under the Internal Revenue Code, a holder of Forest Energy Resources common stock may be subject, under certain circumstances, to backup withholding at a current rate of 28% with respect to the amount of cash, if any, received as a result of the sale of fractional share interests unless such holder provides proof of an applicable exemption or correct taxpayer identification number, and otherwise complies with applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules are not additional tax and may be refunded or credited against the holder's federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service.



**Table of Contents*****Material U.S. Federal Tax Consequences to U.S. Holders of Holding and Disposing of Mariner Common Stock Distributions on Common Stock***

A distribution to a U.S. holder on a Mariner share will be (i) first, a dividend to the extent of Mariner's current or accumulated earnings and profits, as determined under general U.S. tax principles, (ii) second, a non-taxable recovery of basis in that Mariner share, causing a reduction in the adjusted basis of the shares of Mariner common stock to the extent thereof (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the holder on a subsequent disposition of our common stock), and (iii) finally, an amount that is received in exchange for the Mariner share. A dividend on a Mariner share that is received by a U.S. holder generally before January 1, 2009 is subject to U.S. tax at a maximum rate of 15 percent provided that the stockholder satisfies certain holding period and other requirements with respect to that Mariner share. Any amount that is deemed to have been received in exchange for a Mariner share will be taxed as a sale or disposition of a Mariner share, discussed below.

***Sales or Dispositions of Common Stock***

Upon a sale or other disposition of a Mariner share, a U.S. holder generally will recognize gain or loss in an amount that is equal to the difference between (i) the sum of any cash and the fair market value of any other property received and (ii) such U.S. holder's adjusted basis in such Mariner share. Any such gain or loss will generally be a capital gain or loss if the Mariner share that is surrendered was held as a capital asset and will be a long-term capital gain or loss if the Mariner share had been held more than one year when the sale or other disposition occurs. Deduction of capital losses is subject to certain limitations under the Internal Revenue Code.

***Information Reporting and Backup Withholding***

Payments of dividends and the proceeds of a disposition of a Mariner share that are made within the U.S. or through certain U.S. related financial intermediaries may be required to be reported to the Internal Revenue Service and may be subject to backup withholding unless (i) the U.S. holder is a corporation or other exempt recipient, or (ii) such person provides a taxpayer identification number or complies with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a person's U.S. tax liability if the required information is timely furnished to the Internal Revenue Service.

***U.S. Federal Estate Tax***

Common stock owned or treated as owned by an individual who is a U.S. holder for U.S. federal estate tax purposes at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, and therefore may be subject to U.S. federal estate tax.

***Material U.S. Federal Tax Consequences to Non-U.S. Holders of Holding and Disposing of Mariner Common Stock******Distributions on Common Stock***

A distribution to a non-U.S. holder on a Mariner share will be (i) first, a dividend to the extent of Mariner's current or accumulated earnings and profits, as determined under general U.S. tax principles, (ii) second, a non-taxable recovery of basis in that Mariner share, causing a reduction in the adjusted basis of the shares of common stock to the extent thereof (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by the holder on a subsequent disposition of our common stock), and (iii) finally, an amount that is received in exchange for the Mariner share.

Dividends paid to non-U.S. holders that are not effectively connected with the non-U.S. holder's conduct of a U.S. trade or business will be subject to U.S. federal withholding tax at a 30% rate, or if a tax treaty applies, a lower rate specified by the treaty. Non-U.S. holders should consult their tax advisors regarding their



**Table of Contents**

entitlement to benefits under a relevant income tax treaty. Dividends that are effectively connected with a non-U.S. holder's conduct of a trade or business in the U.S. and, if an income tax treaty applies, are attributable to a permanent establishment in the U.S., are taxed on a net income basis at the regular graduated rates and in the manner applicable to U.S. persons. In that case, Mariner will not have to withhold U.S. federal withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements. In addition, a branch profits tax may be imposed at a 30% rate, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with its conduct of a trade or business in the U.S.

A non-U.S. holder that claims the benefit of an applicable income tax treaty generally will be required to satisfy applicable certification and other requirements. However,

in the case of Mariner common stock held by a foreign partnership, the certification requirement will generally be applied to the partners of the partnership and the partnership will be required to provide certain information;

in the case of Mariner common stock held by a foreign trust, the certification requirement will generally be applied to the trust or the beneficial owners of the trust depending on whether the trust is a foreign complex trust, foreign simple trust or foreign grantor trust as defined in the U.S. Treasury Regulations; and

look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

A non-U.S. holder that is a foreign partnership or a foreign trust is urged to consult its own tax advisor regarding its status under these U.S. Treasury Regulations and the certification requirements applicable to it.

A non-U.S. holder that is eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for refund with the Internal Revenue Service.

*Sales or Dispositions of Common Stock*

A non-U.S. holder generally will not be subject to U.S. tax on gain recognized on a disposition of a share of Mariner common stock unless:

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. and, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the U.S.; in these cases, the gain will be taxed on a net income basis at the rates and in the manner applicable to U.S. persons, and if the non-U.S. holder is a foreign corporation, the branch profits tax described above may also apply;

the non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year of the disposition and meets other requirements; or

Mariner is or has been a United States real property holding corporation for U.S. tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held such Mariner common stock.

Generally, a corporation is a United States real property holding corporation if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. The tax relating to stock in a United States real property holding corporation generally will not apply to a non-U.S. holder whose holdings, direct and indirect, at all times during the applicable period, constituted 5% or less of Mariner common stock, provided that Mariner common stock was regularly traded on an established securities market. Mariner believes that it currently is, and after the merger will continue to be, a United States real property holding corporation for U.S. tax purposes. Mariner also expects its common stock to be regularly traded on an established securities market immediately after the completion of the merger.

**Table of Contents**

*Information Reporting and Backup Withholding*

Dividends paid to a non-U.S. holder may be subject to information reporting and U.S. backup withholding. A non-U.S. holder will be exempt from this backup withholding tax if such non-U.S. holder properly provides a Form W-8BEN certifying that such stockholder is a non-U.S. holder or otherwise meets documentary evidence requirements for establishing that such stockholder is a non-U.S. holder or otherwise qualifies for an exemption.

The gross proceeds from the disposition of Mariner common stock may be subject to information reporting and backup withholding. If a non-U.S. holder sells its common stock outside the U.S. through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to such stockholder outside the U.S., then the U.S. backup withholding and information reporting requirements generally will not apply to that payment. However, U.S. information reporting will generally apply to a payment of sale proceeds, even if that payment is made outside the U.S., if a non-U.S. holder sells Mariner common stock through a non-U.S. office of a broker that:

is a U.S. person for U.S. tax purposes;

derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the U.S.;

is a controlled foreign corporation for U.S. tax purposes; or

is a foreign partnership, if at any time during its tax year:

one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interests in the partnership; or

the foreign partnership is engaged in a U.S. trade or business, unless the broker has documentary evidence in its files that the non-U.S. holder is a non-U.S. person and certain other conditions are met, or the non-U.S. holder otherwise establishes an exemption. In such circumstances, backup withholding will not apply unless the broker has actual knowledge that the seller is not a non-U.S. holder.

If a non-U.S. holder receives payments of the proceeds of a sale of Mariner common stock to or through a U.S. office of a broker, the payment is subject to both U.S. backup withholding and information reporting unless such non-U.S. holder properly provides a Form W-8BEN certifying that such stockholder is a non-U.S. person or otherwise establishes an exemption.

A non-U.S. holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed such stockholder's U.S. tax liability by timely filing a properly completed claim for refund with the U.S. Internal Revenue Service.

*U.S. Federal Estate Tax*

Mariner common stock owned or treated as owned by an individual who is a non-U.S. holder for U.S. federal estate tax purposes at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax or other treaty provides otherwise, and therefore may be subject to U.S. federal estate tax.

**Mariner stockholders and Forest shareholders are urged to consult their own tax advisors as to the specific tax consequences to them of the spin-off and the merger, as applicable, including tax return reporting requirements, the applicability and effect of federal, state, local, and other applicable tax laws and the effect of any proposed changes in the tax laws.**

**Federal Securities Laws Consequences of the Merger**

All shares of Mariner common stock received by Forest shareholders in the merger will be freely transferable, except that shares of Mariner common stock received by persons who are deemed to be

**Table of Contents**

affiliates of Forest Energy Resources under the Securities Act may resell such stock only in transactions permitted by Rule 145 under the Securities Act, or as otherwise permitted under the Securities Act. Persons who may be affiliates of Forest Energy Resources for those purposes generally include individuals or entities that control, are controlled by, or are under common control with Forest Energy Resources, but would not include stockholders who are not officers, directors or principal stockholders of Forest Energy Resources.

The merger agreement requires Forest Energy Resources to use all commercially reasonable efforts to cause each of its affiliates to execute a written agreement, substantially in the form attached as an exhibit to the merger agreement, to the effect that such affiliate will not sell, assign, transfer or otherwise dispose of any of the shares of Mariner common stock issued to such affiliate in exchange for Forest Energy Resources common stock in the merger except:

pursuant to an effective registration statement under the Securities Act;

in conformity with the volume and other limitations of Rule 145 promulgated under the Securities Act; or

in a transaction which, in the opinion of independent counsel reasonably satisfactory to Mariner or as described in a no-action or interpretative letter from the Staff of the SEC, is not required to be registered under the Securities Act.

**Accounting Treatment**

If the merger is consummated, the acquisition of Forest Energy Resources by Mariner will be accounted for under the purchase method of accounting under U.S. generally accepted accounting principles, with Mariner treated as the acquiror. As a result, the assets and liabilities of the Forest Gulf of Mexico operations will be recorded at their estimated fair values at the date of merger with any excess of the purchase price over the net amount of such fair values recorded as goodwill.

**Regulatory Matters**

None of the parties is aware of any other material governmental or regulatory approval required for the completion of the merger, other than the effectiveness of the registration statement of which this proxy statement/prospectus-information statement is a part and the effectiveness of Mariner's registration statement on Form S-1 relating to the currently-outstanding shares of Mariner common stock, and compliance with applicable antitrust law (including the Hart-Scott-Rodino Act) and the corporate law of the State of Delaware. On November 14, 2005, the waiting period under the Hart-Scott-Rodino Act with respect to the merger expired.

**Appraisal and Dissenters' Rights**

In accordance with the Delaware General Corporation Law, there will be no appraisal rights or dissenters' rights available to holders of Mariner common stock in connection with the merger.

**Table of Contents**

**STRENGTHS AND STRATEGIES OF MARINER FOLLOWING THE MERGER**

Following the merger we expect Mariner to be an independent oil and gas exploration, development and production company focused offshore in the Gulf of Mexico and onshore in the Permian Basin of West Texas. On a pro forma basis as of December 31, 2004, the combined company had 577 Bcfe of estimated proved reserves. Approximately 64% of these reserves were developed; 36% were undeveloped. Approximately 73% of our estimated proved reserves were natural gas and natural gas liquids, and 27% were oil and condensate. The reserves are geographically distributed approximately 62% on the Gulf of Mexico shelf, 18% in the Gulf of Mexico deepwater and 20% in the Permian Basin in West Texas. As of December 31, 2004, the pro forma PV10 of the combined company was approximately \$1.9 billion, and the pro forma standardized measure of discounted future net cash flows attributable to its estimated proved reserves was approximately \$1.4 billion. Please see *Mariner Estimated Proved Reserves* and *The Forest Gulf of Mexico Operations Estimated Proved Reserves* for a definition of PV10 and reconciliations of PV10 to the standardized measure of discounted future net cash flows.

Mariner is focused on the generation and development of new Gulf of Mexico deepwater, deep shelf and shelf projects and the development of its existing asset base in West Texas. Historically, Mariner has achieved growth through the drill bit; however, as part of our growth strategy, we also seek to acquire assets that provide acceptable risk-adjusted rates of return and have significant potential for further reserve additions through development and exploitation activities.

We believe Mariner's core resources and strengths include:

our high-quality assets with geographic and geological diversity;

our successful track record of finding and developing oil and gas reserves; and

our depth of operating experience.

The integration and further development and exploitation of the Forest Gulf of Mexico operations into our business will further diversify and, in our view, complement our existing business, provide additional resources for future growth beyond the producing assets acquired, and afford a larger scale to increase our ability to compete effectively. We expect the effectiveness of our growth strategy to be enhanced by the addition of the Forest Gulf of Mexico assets.

*High-Quality Assets.* We believe our asset base has significant potential:

Our deepwater projects have the potential to provide large reserves, high production volumes and substantial cash flow. Approximately 65 Bcfe of our undeveloped estimated proved reserves as of December 31, 2004, are located in our high-impact deepwater projects *Swordfish*, *Pluto*, *Rigel*, *Baccarat*, and *Daniel Boone*. The *Baccarat* project commenced production in July 2005 (although production was shut-in due to Hurricane Rita and recommenced in January 2006), and the *Swordfish* project commenced production in October 2005.

Notwithstanding delays caused primarily by 2005 hurricane activity, we believe *Pluto* and *Rigel* will commence production in the second quarter of 2006. Proved undeveloped reserves attributable to those projects have been recategorized as proved developed reserves. *Daniel Boone* is currently scheduled for production in 2008.

The Gulf of Mexico is an area that offers substantial growth opportunities, and we expect to continue to generate shelf, deep shelf and deepwater Gulf of Mexico prospects. The Forest Gulf of Mexico assets will more than double our existing undeveloped acreage position to approximately 465,000 net acres and increase our total net leasehold acreage offshore to nearly 1 million acres, providing numerous exploration, exploitation and development opportunities. We believe the additional acreage also will provide increased exposure to farm-out opportunities from other oil and gas operators. Our team of geoscientists currently has access to seismic data from multiple, recent vintage 3-D seismic databases covering more than 6,600 blocks in the Gulf of Mexico that we intend to continue to use to develop prospects on acreage being evaluated for leasing and to develop and further refine prospects on our expanded acreage position. The combination of our undeveloped acreage position, inventory of development prospects, seismic data and technical knowledge should enhance our ability to select



**Table of Contents**

projects with the greatest return potential for future development. We will also gain access to a significant infrastructure in the shelf that we believe will provide substantial cost efficiencies to the combined operations.

Our West Texas assets provide stable cash flow and long-lived reserves, with significant development opportunities. In West Texas, during the three years ended December 31, 2004, we drilled 105 wells, all commercially successful, added approximately 76 Bcfe of estimated proved reserves, and increased our average daily production by more than 400%. Our 52 Bcfe of undeveloped estimated proved reserves in West Texas includes 162 locations. Our recent West Texas acquisition adds to our asset base an approximate 35% working interest in over 200 existing producing wells and, we believe, will provide future infill development opportunities, much like our Aldwell unit. This recent acquisition, in conjunction with our existing West Texas acreage, gives Mariner an inventory of multi-year development drilling opportunities.

*Successful Track Record of Finding and Developing Oil and Gas Reserves.* In the three-year period ended December 31, 2004, Mariner deployed approximately \$337 million of capital on acquisitions, exploration and development, while adding approximately 191 Bcfe of proved reserves and producing approximately 111 Bcfe. In addition to our successful West Texas drilling program, in the three-year period ended December 31, 2004, we have participated in the drilling of 33 exploration wells in the Gulf of Mexico, with 15 of these wells resulting in the discovery of commercial oil and gas reserves.

Our technical professionals average more than 20 years of experience in the exploration and production business, much of it with major oil companies, including extensive experience in the Gulf of Mexico. The addition of experienced Forest personnel to Mariner's team of geoscientists and technical and operational professionals should further enhance our ability to generate and maintain an inventory of high-quality drillable prospects and to further develop and exploit our assets.

We seek to mitigate our risk in drilling projects by entering into arrangements with industry partners in which they agree to pay a disproportionate share of dry hole costs and compensate us for expenses incurred in prospect generation. We intend to continue our practice of sharing costs of offshore exploration and development activities by selling interests in projects to industry partners. From time to time, we may sell entire interests in offshore prospects in order to better diversify our portfolio. We also enter into trades or farm-in transactions whereby we acquire interests in third-party generated prospects. We expect more opportunities to participate in these prospects as a result of the scale and increased cash flow the merger will bring.

*Depth of Operating Experience.* Our engineers have extensive experience in offshore Gulf of Mexico completion and production techniques, both in the deepwater and on the shelf. We have extensive experience and a successful track record in the use of subsea tieback technology to connect offshore wells to existing production facilities. This technology facilitates production from offshore properties without the necessity of fabrication and installation of more costly platforms and top side facilities that typically require longer lead times. We believe the use of subsea tiebacks in appropriate projects enables us to bring production online more quickly, makes target prospects more profitable, and allows us to exploit reserves that may otherwise be considered non-commercial because of the high cost of infrastructure. In the Gulf of Mexico, in the three years ended December 31, 2004, we were directly involved in thirteen projects (five of which we operated) utilizing subsea tieback systems in water depths ranging from 475 feet to more than 7,000 feet, and in five projects (three of which we operated) developed through the use of platforms.

Mariner has proven to be an effective and efficient operator in West Texas, as evidenced by our results there in recent years. In addition to conducting a successful drilling program, increasing our production and expanding our asset base, we have improved our net operating margin by reducing our operating costs and increasing our realized share of production.

**Table of Contents**

We expect that our acquisition of the Forest Gulf of Mexico assets and the scale it brings to our business will:

reduce our concentration risk;

provide many exploration, exploitation and development opportunities;

enable us to increase the number of our internally-generated prospects;

expand our sphere of influence and enhance our ability to participate in prospects generated by other operators; and

add a significant cash flow generating resource that will improve our ability to compete effectively in the Gulf of Mexico and provide funding for acquisition projects.

We believe we are well positioned to optimize the Forest Gulf of Mexico assets through aggressive and timely exploitation. Our diverse, high-quality assets, our ability to find and develop oil and gas reserves, and our operating experience should provide a strong platform from which to grow and create value for our shareholders.

**Table of Contents**

**THE MERGER AGREEMENT**

*The following is a summary of the material terms of the merger agreement. This summary is qualified in its entirety by reference to the merger agreement, a copy of which is attached as Annex A to this proxy statement/prospectus-information statement and is incorporated by reference into this proxy statement/prospectus-information statement. We urge you to read the merger agreement in its entirety for a more complete description of the terms and conditions of the merger.*

**The Merger**

***Structure of the Merger***

At the effective time of the merger, MEI Sub, a newly formed, wholly owned subsidiary of Mariner, will merge with and into Forest Energy Resources. Forest Energy Resources will remain as the surviving corporation and immediately after the merger will become a wholly owned subsidiary of Mariner.

***Effective Time of the Merger***

The closing of the merger will occur within two business days after the fulfillment or waiver of the conditions described under **Conditions to the Completion of the Merger** below, unless Forest Energy Resources and Mariner agree in writing upon another time or date. The merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware or at such later time as the parties to the merger agreement may agree and as is provided in the certificate of merger. The filing of the certificate of merger will take place as soon as practicable at or after the time of the closing of the merger.

***Merger Consideration***

The merger agreement provides that each share of Forest Energy Resources common stock (other than certain shares described under **Cancellation of Certain Shares** below) that is outstanding immediately prior to the effective time of the merger will, at the effective time of the merger, be converted into the right to receive one share of Mariner common stock as adjusted for any stock split, reverse stock split, stock dividend, subdivision, reclassification, combination, exchange, recapitalization or other similar transaction, except that shareholders will receive cash in lieu of any fractional share of Mariner common stock.

***Cancellation of Certain Shares***

Each share of Forest Energy Resources common stock held by Forest Energy Resources as treasury stock, and each share of Forest Energy Resources common stock owned by Mariner or MEI Sub, in each case immediately prior to the effective time of the merger, will automatically be canceled and no stock or consideration will be delivered in exchange therefor. Neither Mariner nor MEI Sub currently owns any shares of Forest Energy Resources common stock.

***Procedure for Surrender of Certificates***

Shares of Forest Energy Resources common stock to be issued in the spin-off will be issued in book-entry form, meaning that, although Forest shareholders will own the shares, they will not be issued physical share certificates. Prior to the effective time of the merger, an exchange agent will be appointed to handle the exchange of Forest Energy Resources stock certificates for Mariner stock certificates. As promptly as practicable after the effective time of the merger, Mariner will cause the exchange agent to effect the exchange, via book-entry procedures, of Forest Energy Resources shares for Mariner shares. Mariner will not issue physical certificates for the shares of common stock issued in the merger. After the merger becomes effective, Forest Energy Resources will not register any further transfers of shares of Forest Energy Resources common stock.



**Table of Contents**

***Treatment of Certain Forest Stock Options***

At the effective time of the merger, the portion of each outstanding option to acquire Forest common stock that is unexercisable as of the effective time and which is held by a Forest Energy Resources employee who remains employed by Forest Energy Resources, Mariner or their subsidiaries after the effective time of the merger will be converted into an option to acquire from Mariner a number of shares of Mariner common stock determined by multiplying:

the number of shares of Forest common stock subject to the portion of such option that is unexercisable immediately before the effective time, by

the option exchange ratio described below, and rounding to the nearest whole number. The purchase price per share of Mariner common stock under the converted option will be the exercise price per share under the original Forest stock option divided by the option exchange ratio, with the resulting price rounded to the nearest whole cent.

The option exchange ratio means the quotient, rounded to the third decimal place, determined by dividing: the average of the daily closing prices per share of Forest common stock for the last five trading days immediately preceding the effective time of the merger, by

the average of the daily closing prices per share of Mariner common stock for the first five trading days following the effective time of the merger, subject to appropriate adjustment in the event of any stock split, stock dividend or recapitalization after the date of the merger agreement applicable to shares of Forest common stock or Mariner common stock.

Mariner will take all actions necessary to reserve for issuance, from and after the effective time of the merger, a sufficient number of shares of Mariner common stock for delivery under the Forest stock options that are deemed to constitute options to purchase shares of Mariner common stock in accordance with the preceding paragraphs, and, on or as soon as practicable after the effective time of the merger, Mariner will file with the SEC a registration statement with respect to such Mariner common stock and cause such shares to be listed on the NYSE.

***Board of Directors and Officers of Mariner***

The board of directors of Mariner immediately after the effective time of the merger will consist of seven directors, five of whom will be the directors of Mariner immediately before the effective time of the merger and two of whom will be mutually agreed upon by Mariner and Forest prior to the effective time of the merger. The board of directors of Mariner will also appoint committees as appropriate, including an audit committee, a compensation committee and a nominating committee. The officers of Mariner immediately prior to the effective time of the merger will continue as the officers of Mariner immediately after the effective time of the merger.

***Representations and Warranties***

The merger agreement contains certain representations and warranties made by Forest and Forest Energy Resources jointly, and by Mariner. These representations and warranties, which are generally reciprocal unless otherwise stated below, relate to:

corporate existence, qualifications to conduct business and corporate standing and power;

corporate authorization, enforceability and actions by the board of directors;

capitalization;

financial statements and undisclosed liabilities;

absence of certain material changes or events since June 30, 2005;

**Table of Contents**

governmental investigations and litigation;

licenses and compliance with laws;

the registration statements to be filed with the SEC and this proxy statement/ prospectus-information statement;

information supplied to governmental authorities;

compliance with environmental laws;

tax matters;

benefit plans;

labor matters;

intellectual property matters;

material contracts;

financial advisor opinion (given only by Mariner);

payment of broker s and finder s fees in connection with the merger agreement and other transaction agreements;

takeover statutes (given only by Mariner);

certain findings of the board of directors to approve the merger;

stockholder votes necessary to complete the merger;

absence of requirement for Forest stockholder approval (given only by Forest);

Forest Energy Resources stockholder approval (given only by Forest Energy Resources);

payments to certain affiliated individuals or entities;

title to, and sufficiency of, assets;

loans made to third parties;

oil and gas reserves; and

derivative transactions.

Forest, on behalf of itself only, also makes representations and warranties to Mariner with respect to its:  
due organization and good standing;

corporate power, authorization and validity of agreements;

information supplied to governmental authorities;

payment of broker's and finder's fees in connection with the merger agreement and other transaction agreements; and

rights plan.

The parties acknowledge that the other parties to the merger agreement do not make any express or implied representations or warranties except as set forth in the merger agreement, the distribution agreement or the ancillary agreements. The representations and warranties contained in the merger agreement do not survive the effective time of the merger.

**Table of Contents**

**Covenants**

Forest Energy Resources, Forest and Mariner have each undertaken certain covenants in the merger agreement. The following summarizes the material covenants:

***No Solicitation***

The merger agreement provides that Mariner will not, and will not permit its directors and officers, and will use all reasonable efforts to cause its employees, agents and representatives not to:

solicit, initiate, encourage, facilitate or induce any inquiry, proposal or offer with respect to an acquisition proposal;

participate in any discussions or negotiations regarding, provide nonpublic information with respect to, or otherwise facilitate any acquisition proposal;

engage in discussions with respect to an acquisition proposal;

approve, endorse or recommend an acquisition proposal, except as provided in the merger agreement; or

enter into any agreement related to any acquisition proposal, except as provided by the merger agreement.

When we refer to an acquisition proposal, we mean any inquiry, offer or proposal for a transaction or series of related transactions involving any of the following:

any purchase by any person, entity or group, as defined in Section 13(d) of the Exchange Act, of more than 15% of the total outstanding voting securities of Mariner;

any tender or exchange offer that would result in any person, entity or group, as defined in Section 13(d) of the Exchange Act, owning 15% or more of the total outstanding voting securities of Mariner;

any merger, consolidation, business combination or similar transaction involving Mariner;

any sale, exchange, transfer, acquisition or disposition, or any lease or license outside of the ordinary course of business, of more than 15% of Mariner's assets; or

any liquidation or dissolution of Mariner.

As of the date the merger agreement was executed, Mariner agreed to immediately cease and terminate any existing discussions or negotiations with respect to any acquisition proposal.

In the event that Mariner receives an acquisition proposal or any request for nonpublic information or inquiry that it reasonably believes could lead to an acquisition proposal, Mariner agrees to:

notify Forest and Forest Energy Resources orally and in writing of the material terms of the acquisition proposal, request or inquiry;

identify to Forest and Forest Energy Resources the person making the acquisition proposal, request or inquiry;

furnish to Forest and Forest Energy Resources copies of all written materials provided in connection with the acquisition proposal or inquiry;

provide to Forest and Forest Energy Resources as promptly as practicable, both orally and in writing, all information reasonably necessary to keep Forest and Forest Energy Resources informed in all material respects of the status and details of the acquisition proposal, request or inquiry, including providing copies of written materials received from and provided to the third party making the acquisition proposal, request or inquiry; and



**Table of Contents**

provide Forest and Forest Energy Resources 48 hours prior notice (or such lesser notice as is provided to Mariner's directors) of any meeting of Mariner's board of directors at which it will consider an acquisition proposal, unless shorter notice is provided to the board of directors, in which case Forest and Forest Energy Resources are to be provided the same notice.

Notwithstanding the foregoing, Mariner's board of directors may provide nonpublic information to, and engage in negotiations with, a third party in response to an unsolicited, bona fide acquisition proposal with respect to Mariner, if: Mariner has complied with all of its non-solicitation and notification obligations in the merger agreement;

in the good faith judgment of Mariner's board of directors (after receiving the advice of its legal counsel and financial advisor), the acquisition proposal is a superior offer or is reasonably likely to result in a superior offer;

concurrently with furnishing any nonpublic information, Mariner notifies Forest and Forest Energy Resources in writing of its intention to furnish nonpublic information and furnishes the same nonpublic information to Forest and Forest Energy Resources;

concurrently with engaging in negotiations with the third party, Mariner notifies Forest and Forest Energy Resources in writing of its intent to enter into negotiations with the third party; and

Mariner executes a customary confidentiality agreement with the third party with terms at least as restrictive as the confidentiality agreement between Forest and Mariner.

When we refer to a superior offer, we mean an unsolicited bona fide written proposal made by a third party to acquire, directly or indirectly, pursuant to a tender or exchange offer, merger, consolidation or other business combination, all or substantially all of the assets of Mariner or substantially all of the total outstanding voting securities of Mariner. The superior offer must be on terms that the Mariner board of directors has in good faith concluded, after receiving the advice of its legal counsel and financial adviser and taking into account all legal, financial, regulatory and other aspects of the offer and the third party offeror, to be more favorable, from a financial point of view, to Mariner's stockholders than the terms of the merger and to be reasonably capable of being consummated.

If Mariner receives a superior offer and that superior offer has not been withdrawn, Mariner's board of directors is permitted to change its recommendation that the Mariner stockholders approve the merger if:

Mariner stockholders have not already approved the merger and the merger agreement;

Mariner notifies Forest and Forest Energy Resources in writing:

that it has received a superior offer;

of the terms and conditions of the superior offer;

of the identity of the third party making the superior offer; and

that it intends to change its recommendation that Mariner stockholders approve the merger and the manner in which it intends to do so;

Mariner provides Forest and Forest Energy Resources with copies of all written materials delivered by Mariner to the third party making the superior offer that have not previously been provided to Forest and Forest Energy Resources, and Mariner has otherwise made available to Forest and Forest Energy Resources all materials and information made available to the third party; and

Mariner has not breached any of the provisions of the merger agreement relating to acquisition proposals and superior offers.

Subject to complying with its fiduciary duties under applicable law, Mariner's obligation to call, give notice of, convene and hold its stockholders' meeting regarding approval of the merger agreement will not be

**Table of Contents**

limited or otherwise affected by the commencement, disclosure, announcement or submission to it of any acquisition proposal unless the merger agreement is terminated. Prior to termination of the merger agreement, Mariner will not submit to the vote of its stockholders any acquisition proposal other than the merger or enter into any agreement, agreement in principle or letter of intent with respect to, or accept any acquisition proposal other than, the merger.

In addition, notwithstanding the foregoing, Mariner and its board of directors may take a position, and disclose to its stockholders that position, with respect to a tender or exchange offer by a third party in compliance with Rule 14d-9 or Rule 14e-2(a) of the Exchange Act to the extent required by applicable law. The content of any document disclosing the position of the Mariner board of directors to Mariner stockholders will be governed by the provisions of the merger agreement. The Mariner board of directors may not recommend that Mariner stockholders tender or exchange their Mariner common stock unless the Mariner board of directors determines in good faith, after receiving advice of its legal counsel and financial adviser, that the acquisition proposal is a superior offer.

***Board of Directors Covenant to Call Stockholders Meeting and to Recommend the Merger***

As promptly as practicable following the date of the merger agreement and the effectiveness of the registration statements, Mariner has agreed to call a meeting of its stockholders to be held as promptly as practicable for the purpose of voting upon the adoption of the merger agreement and any related matters, and to submit the merger agreement for adoption to the stockholders of Mariner at such Mariner meeting. The meeting to which this proxy statement/ prospectus-information statement relates is intended to fulfill this requirement. Mariner has agreed to cause the Mariner meeting to be held and the vote taken within 60 days following the effectiveness of Mariner's registration statement of which this proxy statement/ prospectus-information statement is a part. Mariner will deliver to its stockholders the proxy statement/ prospectus-information statement in definitive form in connection with the Mariner meeting, at the time and in the manner provided by, and will conduct the Mariner meeting and the solicitation of proxies in connection with the Mariner meeting in accordance with, the applicable provisions of the law of the State of Delaware, the Exchange Act and Mariner's certificate of incorporation and by-laws. Subject to the provisions described in No Solicitation above, Mariner's board of directors has agreed to recommend that the stockholders of Mariner adopt the merger agreement.

***Operations of Forest (in respect of the Forest Gulf of Mexico operations), Forest Energy Resources and Mariner Pending Closing***

Forest (in respect of the Forest Gulf of Mexico operations), Forest Energy Resources and Mariner have each undertaken that, until the earlier of the effective time of the merger and the termination of the merger agreement, each will conduct its business in the ordinary course consistent with past practice and use all commercially reasonable efforts to preserve intact its business organization, maintain its material rights and franchises, keep available the services of its current officers and key employees and preserve its relationships with material third parties. Each has further agreed that it will not, except as permitted by the distribution agreement or any ancillary agreement or with the prior written consent of the other parties (such consent not to be unreasonably withheld or delayed), do any of the following:

declare or pay any dividends on or make other distributions in respect of its capital stock;

split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock;

redeem, repurchase or otherwise acquire (or permit any subsidiary to redeem, repurchase or otherwise acquire) any shares of its capital stock;

issue, deliver or sell any shares of, or securities convertible into, its capital stock of any class, except, in the case of Mariner, the issuance of stock options with three-year vesting or restricted stock for up to 300,000 shares of Mariner common stock;

amend its governing documents;





**Table of Contents**

other than purchases from vendors or suppliers in the ordinary course of business consistent with past practice, exercises of preferential rights and, in the case of Mariner, certain specified transactions, engage in acquisitions valued at more than \$25 million in the aggregate;

other than product sales and other dispositions in connection with normal equipment maintenance or salvage in the ordinary course of business and consistent with past practice and permitted liens, dispose of assets valued at more than \$10 million in the aggregate, except, in the case of Mariner, transactions permitted as described under No Solicitation above;

incur or guarantee indebtedness, other than, in the case of Forest Energy Resources, indebtedness incurred or guaranteed in connection with the spin-off, or, in the case of Mariner, up to \$185 million pursuant to a new or amended credit agreement;

fail to continue its capital expenditure program for exploration and development or fail to perform, to the extent reasonably practicable, all capital expenditures at an aggregate cost not exceeding 120% of the aggregate costs set forth in the capital expenditure program;

make material changes to employment arrangements;

fail to comply with any laws, ordinances or regulations or permit to expire or terminate without renewal any license that is necessary to the operation of the business, to the extent the same would result in a material adverse effect;

adopt a plan of complete or partial liquidation or dissolution;

change its fiscal year or make any material change in its methods of accounting except as required by the Financial Accounting Standards Board or changes in generally accepted accounting principles, or in response to comments made by the SEC with respect to any registration statement;

amend any agreement or arrangement with any affiliates (including employees of Mariner and Forest Energy Resources) on terms materially less favorable than could be reasonably expected to have been obtained with an unaffiliated third party on an arm's-length basis;

except in the ordinary course of business consistent with past practice, modify, amend, terminate or renew any material contract or waive, release or assign any material rights or claims, in each case if the action would have a material adverse effect or impair in any material respect the party's ability to perform its obligations under the merger agreement and other transaction agreements;

waive any preferential rights;

enter into any contract not in the ordinary course of business involving total consideration of \$2 million or more with a term longer than one year, unless it can be terminated by it without penalty upon no more than 30 days prior notice;

fail to maintain insurance in amounts and against risks and losses as are customary for companies engaged in their respective businesses, except, in the case of Mariner, self-insurance with respect to operators' extra expense insurance, physical damage to wellsite real and personal property insurance and business interruption insurance;

make or rescind any material express or deemed election relating to taxes unless the action will not materially and adversely affect that party on a going-forward basis;

settle or compromise any material claim or controversy relating to taxes, except where the settlement or compromise will not result in a material adverse effect on that party;

amend any material tax returns;

change in any material respect any of its methods of reporting income or deductions for federal income tax purposes, except as may be required by applicable law or except for changes that are reasonably expected not to result in a material adverse effect on that party;

**Table of Contents**

pay, discharge or satisfy any material claims, liabilities or obligations, other than the payment, discharge or satisfaction, in the ordinary course of business or, in the case of Mariner, in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements or incurred in the ordinary course of business;

take or cause or permit to be taken any action that would disqualify the spin-off under the distribution agreement from constituting a tax-free spin-off or that would disqualify either the merger or the contribution of assets from Forest to Forest Energy Resources from constituting a tax-free reorganization;

intentionally take or agree or commit to take any action that would result in any of the conditions set forth in the merger agreement not being satisfied at the effective time of the merger;

enter into any derivative transaction or any fixed price commodity sales agreement with a term of more than 60 days; and

agree or otherwise take any action inconsistent with the foregoing.

Mariner has also undertaken that it will cause MEI Sub not to conduct any business operations, enter into any contract, acquire any assets or incur any liabilities, and will use reasonable commercial efforts to obtain the lender consent and to enter into a new credit facility. Forest and Forest Energy Resources have also undertaken not to form or propose to form a new subsidiary of Forest Energy Resources.

Also, the parties agree to promptly advise the other parties orally and in writing of any change or event having, or that, insofar as can reasonably be foreseen, could have, either individually or together with other changes or events, a material adverse effect.

***Commercially Reasonable Efforts, Further Assurances***

Forest, Forest Energy Resources, Mariner and MEI Sub have agreed to use all commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary under applicable laws and regulations to consummate the transactions contemplated by the merger agreement and the other transaction agreements. These actions include providing information and obtaining all necessary exemptions, rulings, consents, authorizations, approvals and waivers to effect all necessary registrations and filings and to lift any injunction or other legal bar to the merger and the other transactions contemplated by the merger agreement and the other transaction agreements as promptly as practicable, and taking all other actions necessary to consummate the transactions contemplated by the merger agreement and the other transaction agreements in a manner consistent with applicable law. Forest, Forest Energy Resources, Mariner and MEI Sub also agreed to cooperate and to use their respective commercially reasonable efforts to obtain any government clearances required to consummate the merger and to respond to any government requests for information.

***Employee Benefit Plans***

Forest Energy Resources and Mariner agreed in the merger agreement that Forest Energy Resources employees who remain employed by Forest Energy Resources, Mariner or their subsidiaries from and after the effective time of the merger:

will participate in Mariner benefit plans as of the effective time of the merger on a basis no less favorable than that applicable to similarly situated Mariner employees, and be granted full credit for all purposes under such plans for prior service with Forest and Forest Energy Resources and their affiliates before the effective time of the merger (except to the extent necessary to avoid duplication of benefits);

will, if the effective time of the merger occurs in 2006, receive vacation benefits for 2006 that are equal to the employee's accrued and unused vacation under Forest's vacation policy as of the effective time of the merger plus any additional vacation entitlement the employee would have earned under the terms of Mariner's vacation policy; and



**Table of Contents**

will receive specified relocation benefits if, from the effective time of the merger to the later of June 30, 2006 or six months after the effective time of the merger, Mariner or a subsidiary of Mariner relocates the principal place of employment of the employee by 50 miles or more from the location of his or her principal place of employment immediately prior to the effective time of the merger.

In addition, Forest Energy Resources employees will, in lieu of the payment of any annual bonuses for 2005 under annual incentive and bonus plans maintained by Forest, be eligible to receive potential retention benefits, paid in installments commencing in October 2005 and ending in June 2006, in an aggregate amount equal to 250% of the employee's target annual bonus for 2005 under the annual incentive or bonus plan maintained by Forest and applicable to the employee.

If, during the period beginning on the effective time of the merger and ending on the later of June 30, 2006, or the date that is six months after the effective time of the merger, a Forest Energy Resources employee (a) voluntarily terminates his employment within 30 days after a reduction in his base salary or base wages from that in effect immediately prior to the effective time of the merger, (b) voluntarily terminates his employment after being notified that the principal place of his employment is changing to a location 50 miles or more from the location of his principal place of employment immediately prior to the effective time of the merger, or (c) is involuntarily terminated from employment other than for cause, then Mariner shall pay specified severance benefits to such employee, reduced, however, by the amount of any retention benefits previously paid to such employee, and provided that such employee executes a release and is not subsequently re-hired by Forest or any subsidiary of Forest during the six-month period after the effective time of the merger.

Mariner will reimburse Forest for severance amounts paid to employees of the Forest Gulf of Mexico operations who are terminated by Forest with Mariner's consent prior to the effective time of the merger, provided that any such employee is not subsequently rehired by Forest or any Forest subsidiary during the six month period following the effective time of the merger.

After the effective time of the merger, Forest will transfer the aggregate account balances of the Forest Gulf of Mexico operations employees under Forest's retirement savings plan to Mariner's comparable plan. Any loans under the plan will be transferred as part of the balance transfers. All savings plan investments in shares of Forest or Mariner common stock will be converted to cash prior to transfer.

***Directors and Officers Indemnification***

From and after the effective time of the merger, Forest Energy Resources will indemnify any persons who are or were officers or directors of Mariner prior to the effective time of the merger for losses in connection with any action arising out of or pertaining to acts or omissions, or alleged acts or omissions, by them in their capacities as such, whether commenced, asserted or claimed before or after the effective time of the merger. Forest Energy Resources will maintain existing, or provide comparable, directors and officers liability insurance policies for a period of six years following the effective time of the merger.

**Additional Covenants**

***Litigation Defense***

Each of Forest, Forest Energy Resources, Mariner and MEI Sub will use all commercially reasonable efforts to defend against all actions in which such party is named as a defendant that challenge or otherwise seek to enjoin, restrain or prohibit the transactions contemplated by the merger agreement or seek damages with respect to such transactions.

***Accounting Matters***

Each party to the merger agreement will use its commercially reasonable efforts to ensure that, following the effective time of the merger, Mariner will establish a fiscal year ending on December 31.

**Table of Contents**

***Reorganization Treatment***

Forest, Forest Energy Resources, Mariner and MEI Sub intend that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and the parties have agreed to take the position for all tax purposes that the merger so qualifies unless a contrary position is required by a final determination within the meaning of Section 1313 of the Internal Revenue Code. Forest, Forest Energy Resources, Mariner and MEI Sub will each use their respective commercially reasonable efforts to cause the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, and will not take actions, cause actions to be taken or fail to take actions that are reasonably likely to prevent such result.

***Letter of Credit***

Mariner will obtain and maintain a letter of credit in favor of Forest with an aggregate principal amount of \$40.0 million to secure Mariner's performance of its obligations under an existing drill-to-earn program. The principal amount of the letter of credit will decrease over time as Mariner drills more wells under the program.

**Conditions to the Completion of the Merger**

The respective obligations of Forest, Mariner, MEI Sub and Forest Energy Resources to complete the merger are subject to the fulfillment, or the waiver by Forest and Mariner, of various conditions which include, in addition other customary closing conditions, the following:

completion of the spin-off in accordance with the distribution agreement;

obtaining all material consents, approvals and authorizations of any governmental authority legally required for the consummation of the transactions contemplated by the merger agreement and the other transaction agreements;

the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Act;

the SEC having declared effective the registration statements of Mariner relating to the shares of Mariner common stock to be issued in connection with the merger;

the approval for listing on the New York Stock Exchange or Nasdaq of the shares of Mariner common stock and such other shares required to be reserved for issuance in connection with the merger, subject to official notice of issuance;

adoption of the merger agreement by the Mariner stockholders at the meeting;

the absence of a final and non-appealable injunction or other prohibition issued by a court or other governmental entity that restrains, enjoins or prohibits the spin-off or the merger;

there being no action by a governmental authority pending to restrain, enjoin, prohibit or delay consummation of the transactions contemplated by the merger agreement, or to impose any material restrictions or requirements on the transactions contemplated by the merger agreement or on Forest Energy Resources or Mariner with respect to the transactions;

there being no action taken and no statute, rule, regulation or executive order enacted, entered, promulgated or enforced by any governmental authority with respect to the merger that, individually or in the aggregate, would restrain, prohibit or delay the consummation of the merger or impose material restrictions or requirements on consummation of the merger or on Forest Energy Resources or Mariner with respect to the transactions;

the performance by Forest, Forest Energy Resources and Mariner in all material respects of their respective covenants and agreements contained in the merger agreement and the truthfulness and correctness of the representations and warranties in the merger agreement in all respects, except in each case where the failure to be

true and correct, individually or in the aggregate, would not have a

82

---



**Table of Contents**

material adverse effect or to the extent specifically contemplated or permitted by the merger agreement; and

Forest, Forest Energy Resources and Mariner having received an opinion from their respective counsel to the effect that the merger will be treated for federal income tax purposes as a reorganization.

Additionally, the obligation of Forest and Forest Energy Resources to complete the merger is subject to the fulfillment or waiver by Forest of the following additional conditions:

Forest having received any consents required from its bondholders; and

Forest having received the consents required pursuant to its credit facility.

Additionally, the obligation of Mariner and MEI Sub to complete the merger is subject to the fulfillment or waiver by Mariner of the following additional conditions:

Mariner having received the consents required pursuant to its credit facility; and

Forest Energy Resources and/or Mariner having entered into a new or amended credit facility with available borrowing capacity sufficient to operate the Forest Gulf of Mexico operations and Mariner's business after the closing of the merger transaction consistent with past practice.

None of Forest, Forest Energy Resources or Mariner may rely on the failure of any condition set forth in the merger agreement to be satisfied if such failure was caused by such party's failure to act in good faith or to use its commercially reasonable efforts to consummate the merger and the other transactions contemplated by the merger agreement and the other transaction agreements.

A material adverse effect is, with respect to any person, any circumstance, change or effect that is or is reasonably likely to be materially adverse to (i) the business, operations, assets, liabilities, results of operations or condition (financial or otherwise) of such person and its subsidiaries, taken as a whole (which may include damage attributable, both directly and indirectly, to Hurricane Katrina), except for such effects on or changes in general economic or capital market conditions and effects and changes that generally affect the U.S. domestic oil and gas exploration and production business, or (ii) the ability of such person to perform its obligations under the merger agreement or under the other transaction agreements, in each case other than any such circumstance, change or effect that relates to or results primarily from (x) the announcement, pendency or consummation of the transactions contemplated by the merger agreement or the other transaction agreements or (y) acts of war, insurrection, sabotage or terrorism. Damages attributable to Hurricane Katrina disclosed in the damage reports of Mariner and Forest will not be taken into account in determining whether a material adverse effect exists or has occurred.

On November 14, 2005, the waiting period under the Hart-Scott-Rodino Act expired. On October 19, 2005, Forest received the consent required pursuant to its credit facility. As of January 20, 2006, no other conditions to closing have been satisfied. On December 16, 2005, Mariner received clearance from the New York Stock Exchange to file a listing application for its common stock, and on December 22, 2005 Mariner filed a listing application and other ancillary documents with the New York Stock Exchange. Mariner is currently negotiating the definitive documents for its new credit facility, which documents also will grant the consent required pursuant to its existing facility. Mariner and Forest are actively working to obtain necessary consents, approvals and authorizations from governmental authorities, including the Minerals Management Service.

## **Table of Contents**

Based on its current valuation of the Forest Gulf of Mexico operations and the current amount of distributions permitted by the covenants contained in the indentures governing Forest's outstanding bonds, Forest believes that no consents of its bondholders will be required for the spin-off and the merger. If Forest's belief that bondholder consents are not necessary remains unchanged as the merger closing approaches, it intends to waive conditions in the merger agreement and distribution agreement related to such consents.

Neither Mariner nor Forest currently believes that any other condition to closing is likely to be waived. Mariner and Forest will recirculate revised proxy materials and resolicit proxies if there are any material changes in the terms of the merger, including those that result from waivers of conditions to closing.

### **Termination of the Merger Agreement**

#### ***Right to Terminate***

The merger agreement may be terminated and the transactions contemplated by the merger agreement may be abandoned at any time prior to the effective time of the merger as follows:

by mutual written consent of the parties;

by any party:

if the effective time of the merger has not occurred on or before March 31, 2006, except that a party may not terminate the merger agreement if the cause of the merger not being completed on or before such date resulted from the party's failure to fulfill its obligations;

if a court or other governmental entity issues a final and non-appealable injunction or otherwise prohibits the merger and the terminating party has used all commercially reasonable efforts to remove such injunction or prohibition; or

if the adoption of the merger agreement and the approval of the transactions contemplated by the merger agreement by the Mariner stockholders is not obtained, except that Mariner may not terminate the merger agreement if the cause of the approval not being obtained resulted from the action or failure to act of Mariner and such action or failure to act constitutes a breach by Mariner of the provisions of the merger agreement relating to non-solicitation in any respect or a material breach by Mariner of any of the other covenants or agreements contained in the merger agreement;

by Mariner:

if either Forest or Forest Energy Resources fails to perform in any material respect any of its respective covenants or agreements contained in the merger agreement required to be performed at or prior to the effective time of the merger, or the respective representations and warranties of Forest or Forest Energy Resources in the merger agreement are or will become untrue in any respect at any time prior to the effective time of the merger and the failure to be true and correct, individually or in the aggregate, would have a material adverse effect on the Forest Gulf of Mexico operations, Forest Energy Resources or Mariner and has not been cured within 30 days after written notice was given to Forest and Forest Energy Resources of such failure or untruth; or

if the board of directors of Mariner changes its recommendation that Mariner stockholders approve the merger in order to accept a superior offer, provided that:

Mariner is not in breach of the provisions of the merger agreement relating to non-solicitation or in material breach of any other covenant or agreement contained in the merger agreement, and has not breached any of its representations and warranties contained in the merger agreement in any material respect;

Forest has not made an offer that is at least favorable as the superior offer within three business days after Forest receives written notice of the superior offer;



**Table of Contents**

the Mariner board of directors authorizes Mariner to enter into a binding written agreement with respect to the superior offer and notifies Forest and Forest Energy Resources of its intent to do so and provides a copy of the most current version of the agreement; and

Mariner pays the termination fee and expense reimbursement;

by Forest:

if Mariner fails to perform in any material respect any of its covenants or agreements contained in the merger agreement required to be performed at or prior to the effective time of the merger, or the representations and warranties of Mariner in the merger agreement are or will become untrue in any respect at any time prior to the effective time of the merger and the failure to be true and correct, individually or in the aggregate, would have a material adverse effect on Mariner, the Forest Gulf of Mexico operations or Forest Energy Resources and has not been cured within 30 days after written notice was given to Mariner of such failure or untruth; or

if the board of directors of Mariner (i) fails to reaffirm publicly its approval of the merger, as soon as reasonably practicable, and in no event within three business days after Forest's request, or resolves not to reaffirm the merger, (ii) fails to include in this proxy statement/prospectus-information statement its recommendation, without modification or qualification, that Mariner stockholders approve the merger, (iii) withholds, withdraws, amends or modifies its recommendation that Mariner stockholders approve the merger, (iv) changes its recommendation that Mariner stockholders approve the merger or (v) within ten business days after commencement, fails to recommend against acceptance of any tender or exchange offer for shares of Mariner common stock or takes no position with respect to any tender or exchange offer.

***Termination Fees and Expenses***

If either Forest or Mariner terminates the merger agreement as a result of:

the other party's failure to perform in any material respect any of its covenants or agreements contained in the merger agreement; or

the representations and warranties of such other party in the merger agreement being or becoming untrue; and

the failure to be true and correct, individually or in the aggregate, would have a material adverse effect on Forest Energy Resources, the Mariner business or Mariner and has not been cured within 30 days after written notice was given to such party of such failure or untruth,

the terminating party will be entitled to reimbursement of all of its documented out-of-pocket expenses and fees incurred by such terminating party up to \$5 million in the aggregate.

In addition to the reimbursement of out-of-pocket expenses and fees, Mariner has agreed to pay Forest a termination fee of \$25 million, together with the expense reimbursement described above, if:

(i) either Forest or Mariner terminates the merger agreement as a result of the failure to obtain the requisite stockholder approval from Mariner stockholders, (ii) either Forest or Mariner terminates the merger agreement as a result of the effective time of the merger not occurring on or before March 31, 2006 or (iii) Forest terminates the merger agreement as a result of the failure of Mariner to perform in any material respect any of its covenants and agreements contained in the merger agreement, plus an acquisition proposal had been publicly announced prior to the termination and, within twelve months of the date of termination, Mariner either completes an acquisition proposal with a third party or enters into an agreement or recommends approval of any acquisition proposal that is subsequently completed (whether or not within the twelve-month period);

Forest terminates the merger agreement as a result of the board of directors of Mariner (i) having failed to reaffirm publicly its approval of the merger, as soon as reasonably practicable, and in no event later than three business days, after request by Forest, or having resolved not to reaffirm the merger,

**Table of Contents**

(ii) having failed to include in this proxy statement/ prospectus-information statement its recommendation, without modification or qualification, that Mariner stockholders approve the merger, (iii) having withheld, withdrawn, amended or modified its recommendation that Mariner stockholders approve the merger, (iv) having changed its recommendation that Mariner stockholders approve the merger or (v) within ten business days after commencement, having failed to recommend against acceptance of any tender or exchange offer for shares of Mariner common stock or takes no position with respect to any such tender or exchange offer; or

Mariner terminates the merger agreement as a result of the board of directors of Mariner changing its recommendation that Mariner stockholders approve the merger in order to permit Mariner to accept a superior offer.

**Amendments and Waiver**

Any provision of the merger agreement may, to the extent legally allowed, be amended or waived at any time prior to the effective time of the merger. However, if a provision of the merger agreement is amended or waived after the Mariner stockholders adopt the merger agreement, such amendment or waiver will be subject to any necessary stockholder approval. Forest, Forest Energy Resources, Mariner and MEI Sub must sign any amendments. Any waiver must be signed by the party against whom the waiver is to be effective. Mariner and Forest will recirculate revised proxy materials and resolicit proxies if there are any material changes in the terms of the merger, including those that result from amendments or waivers.

**Table of Contents**

**THE DISTRIBUTION AGREEMENT**

*The following is a summary of the material terms of the distribution agreement. This summary is qualified in its entirety by reference to the distribution agreement, a copy of which is attached as Annex C to this proxy statement/prospectus-information statement and is incorporated by reference into this proxy statement/prospectus-information statement. We urge you to read the distribution agreement in its entirety for a more complete description of the terms and conditions of the spin-off.*

**Summary of the Transactions**

In connection with the merger, Forest has contributed the Forest Gulf of Mexico operations to Forest Energy Resources pursuant to the terms and conditions of the distribution agreement summarized below. Prior to the merger, Forest will spin-off Forest Energy Resources by distributing all of the shares of Forest Energy Resources common stock to Forest shareholders on a pro rata basis.

**Contribution of the Forest Gulf of Mexico Assets and Assumption of Liabilities**

Under the distribution agreement, Forest has taken or caused to be taken all actions necessary to cause the transfer to Forest Energy Resources of all of the ownership interest of Forest and its subsidiaries in:

all real property interests, overriding royalty interests, reversionary interests, real or immovable property (including use and occupation rights, rights to pooled, communitized or unitized acreage, and platforms, pipelines and improvements), easements, inventory, hydrocarbons, equipment, personal or movable property, spare parts, contracts, books and records, proceeds, refunds, settlements, claims and current assets to the extent comprising a part of the Forest Gulf of Mexico operations;

other assets of Forest and the subsidiaries of Forest to the extent specifically assigned by Forest or any subsidiaries pursuant to the distribution agreement; and

all rights of Forest Energy Resources under the distribution agreement and the other agreements entered into in connection with the merger and the spin-off.

Forest Energy Resources has assumed certain liabilities, including:

all of the liabilities of the Forest Gulf of Mexico operations to the extent arising after June 30, 2005 and attributable to the conduct of the business after that date;

legal obligations to plug, abandon, remove or retire platforms, pipelines, improvements, equipment, personal or movable property, fixtures and improvements comprising part of the Forest Gulf of Mexico assets, to the extent the obligation was previously disclosed to Mariner, arose after June 30, 2005 or was not known to Forest after due inquiry on the date of the distribution agreement;

environmental liabilities arising from the conduct of the Forest Gulf of Mexico operations (subject to a monetary cap with respect to specified conditions), unless such liability was required to have been disclosed to Mariner prior to the execution of the merger agreement and was not so disclosed; and

liabilities under specified derivatives contracts with an estimated fair value of \$50.8 million as of June 30, 2005. In connection with the spin-off, Forest Energy Resources will also transfer a cash amount to Forest, which Forest will use to reduce its indebtedness. The cash amount will equal \$200 million, plus or minus the following amounts: minus revenue derived from the Forest Gulf of Mexico operations from June 30, 2005 through the date of the spin-off (which period is referred to as the measurement period );

minus cash consideration from any sale of property, plant and equipment related to the Forest Gulf of Mexico assets during the measurement period;

plus certain net assets and liabilities specified on the date of the distribution agreement;



**Table of Contents**

plus or minus the net gas balancing assets or liabilities of the Forest Gulf of Mexico operations as of June 30, 2005;

plus or minus the net settlement amounts in respect of settlements of gas imbalances effected during the measurement period;

plus capital and operating expenditures attributable to the Forest Gulf of Mexico operations during the measurement period;

plus an amount equal to hypothetical income taxes attributable to the Forest Gulf of Mexico operations during the measurement period;

plus interest expense attributable to the Forest Gulf of Mexico operations during the measurement period;

plus \$1.6 million per month during the measurement period in respect of general and administrative expenses;

plus an amount, not to exceed \$7 million, in respect of the fees and expenses of Forest and Forest Energy Resources in connection with the merger and related transactions;

plus or minus an amount equal to the change in working capital accounts (other than cash) of the Forest Gulf of Mexico operations during the measurement period;

plus or minus an amount to adjust for the above items to the extent they are settled through intercompany accounts prior to the closing.

To the extent that any transfers are not completed before the spin-off, the parties will use their commercially reasonable efforts to effect any remaining transfers as promptly as practicable following the spin-off.

**Spin-off**

Before the merger, Forest will distribute 50,637,010 shares, which will represent all of the then-outstanding shares of Forest Energy Resources common stock, to Forest's shareholders. As a result of the spin-off, Forest Energy Resources will be a separate company that will own and operate the Forest Gulf of Mexico operations.

**Representations and Warranties**

In the distribution agreement Forest represents to Mariner and Forest Energy Resources that, at the time of the spin-off and on June 30, 2005, the Forest Gulf of Mexico assets to be contributed to Forest Energy Resources in connection with the spin-off constitute all of Forest's business and assets in the offshore Gulf of Mexico, and that all such assets are owned free and clear of all liens other than liens permitted under the agreement.

**Indemnification**

Forest Energy Resources has agreed to indemnify, defend and hold Forest and each of its affiliates and their representatives harmless from and against all losses or liabilities arising out of or related to any liabilities assumed by Forest Energy Resources or from Forest Energy Resources' failure to perform its obligations under the distribution agreement.

Forest has agreed to indemnify, defend and hold Forest Energy Resources and each of its affiliates and their representatives harmless from and against all losses or liabilities arising out of or related to the failure of Forest or any of its subsidiaries:

to pay, among other things, any losses or liabilities of Forest or its subsidiaries (including liabilities under the agreements entered into in connection with the merger and the spin-off);



**Table of Contents**

to transfer to Forest Energy Resources or any of its subsidiaries all of the assets to be transferred to Forest Energy Resources; and

to perform any of its obligations under the distribution agreement.

Forest has agreed that it will use commercially reasonable efforts to assist Forest Energy Resources in asserting claims relating to the assets transferred to Forest Energy Resources or liabilities assumed by Forest Energy Resources under Forest's insurance policies, to the extent such claims are based on events prior to the spin-off date or were commenced prior to the spin-off date.

**Conditions to the Spin-off**

The obligations of Forest under the distribution agreement are subject to the fulfillment (or waiver by Forest) at or prior to the spin-off of a number of conditions, including the following:

obtaining all material consents, approvals and authorizations of any governmental authority that are legally required for the spin-off and other transactions contemplated by the other agreements entered into in connection with the spin-off and the merger;

the absence of an injunction or other prohibition issued by a court or other governmental entity that restrains, enjoins or prohibits or otherwise imposes material restrictions on the spin-off or the merger;

the SEC having declared effective the registration statement of Mariner relating to the shares of Mariner common stock to be issued into which shares of Forest Energy Resources common stock will be converted pursuant to the merger, of which this proxy statement/ prospectus-information statement forms a part;

the approval for listing on the New York Stock Exchange or Nasdaq of the Mariner common stock and the other shares required to be reserved for issuance in connection with the merger, subject to official notice of issuance;

the adoption of the merger agreement by the Mariner stockholders at the meeting;

Forest having received an opinion from its tax counsel to the effect that the contribution will constitute a reorganization under Section 368(a) of the Internal Revenue Code and the distribution will qualify under Section 355 of the Internal Revenue Code;

Forest having received the consents required from its bondholders;

the performance by Mariner in all material respects of its covenants and agreements contained in the merger agreement required to be performed at or prior to the date of the spin-off; and

the truthfulness and correctness of the representations and warranties of Mariner in the merger agreement in all respects, except as permitted by the merger agreement or where the failure to be true and correct would not have a material adverse effect.

Based on its current valuation of the Forest Gulf of Mexico operations and the current amount of distributions permitted by the covenants contained in the indentures governing Forest's outstanding bonds, Forest believes that no consents of bondholders will be required for the spin-off and the merger. If Forest's belief that bondholder consents are not necessary remains unchanged as the merger closing approaches, it intends to waive conditions in the merger agreement and distribution agreement related to such consents.

**Table of Contents**

**ANCILLARY AGREEMENTS**

Forest and Forest Energy Resources have entered into agreements that will govern the ongoing relationships among Mariner, Forest Energy Resources and Forest and provide for an orderly transition after the spin-off and the merger. These agreements are summarized below.

**Tax Sharing Agreement**

In order to allocate the responsibilities for payment of taxes and certain other tax matters, Forest, Mariner and Forest Energy Resources have entered into a tax sharing agreement. The following is a summary of the material terms of the tax sharing agreement. This summary is qualified in its entirety by reference to the tax sharing agreement, a copy of which is attached as Annex D to this proxy statement/ prospectus-information statement and which is filed as an exhibit to this registration statement of which this proxy statement/ prospectus-information statement is a part. We urge you to read the tax sharing agreement in its entirety for a more complete discussion of the tax matters.

***Preparation and Filing of Tax Returns***

Forest will prepare and file all tax returns (including any tax returns reporting the results of Forest Energy Resources) for periods ending on or prior to the date of the distribution of Forest Energy Resources to the shareholders of Forest, as well as any consolidated or combined returns of Forest that include Forest Energy Resources or the Forest Gulf of Mexico operations. Mariner and Forest Energy Resources will be responsible for filing all tax returns with respect to Forest Energy Resources operations for all other periods.

***Liability for Taxes***

Each party has agreed to indemnify the other in respect of all taxes for which it is responsible under the tax sharing agreement. Forest is responsible for all taxes for all periods arising from the Forest Gulf of Mexico operations prior to the time that the common stock of Forest Energy Resources is distributed to the Forest shareholders and agrees to hold Forest Energy Resources and Mariner harmless in respect of those taxes. Forest is entitled to receive all refunds of previously paid taxes arising from the Forest Gulf of Mexico operations during such time. Forest remains responsible for all taxes related to the businesses of Forest other than the Forest Gulf of Mexico operations and has agreed to indemnify Forest Energy Resources and Mariner in respect of any liability for any of such taxes.

Forest Energy Resources and Mariner are responsible for all taxes for all periods arising from the Forest Gulf of Mexico operations subsequent to the time that Forest Energy Resources is distributed to the Forest shareholders and agree to hold Forest harmless in respect of those taxes.

***Transaction Taxes***

If the spin-off fails to qualify as a tax-free transaction because of an action by Mariner (or one of its affiliates) that was not contemplated or permitted by the transaction agreements, Mariner and Forest Energy Resources agree to indemnify and hold Forest harmless for any resulting tax liability (or for the utilization of any tax attributes used to absorb any resulting taxable gain). In all other circumstances, Forest is liable for and agrees to indemnify and hold Forest Energy Resources and Mariner harmless for any tax liability if the spin-off fails to qualify as a tax-free transaction.

***Continuing Covenants***

Forest, Mariner and Forest Energy Resources each agrees not to take (and each agrees to cause its respective affiliates to refrain from taking) any position on a tax return that will be inconsistent with the treatment of the spin-off and the merger as tax-free transactions under the applicable provisions of the Internal Revenue Code. In addition, Forest, Forest Energy Resources and Mariner each agrees that, during the two-year period following the spin-off, it will not take or fail to take (or permit any affiliate to take or fail to take) any action which would cause the spin-off to fail to qualify as a tax-free spin-off.

**Table of Contents**

Moreover, Forest and Mariner each agrees that, during the two-year period following the spin-off, prior to entering into any agreement, or failing to take any action, that would result in a more than immaterial possibility that the spin-off would be treated as part of a plan pursuant to which one or more persons acquire directly or indirectly Forest Energy Resources stock or Forest stock representing a 50-percent or greater interest within the meaning of Section 355(e)(4) of the Internal Revenue Code, it will obtain:

a ruling from the Internal Revenue Service to the effect that the action contemplated would not affect the tax-free status of the spin-off,

an opinion from a nationally recognized law firm both reasonably acceptable to Forest and Mariner to the effect that the action contemplated would not affect the tax-free status of the spin-off, or

the agreement of both Forest and Mariner that such contemplated action would not affect the tax-free status of the spin-off.

Actions which may be restricted by these requirements include an issuance of shares of Mariner (or any instrument that is convertible or exchangeable into Mariner shares) in an acquisition or public or private offering. Under U.S. Treasury Regulations, certain safe harbors exist under which certain issuances of shares of Mariner will not be deemed part of the same plan as the spin-off and thus not restricted. Among other safe harbors, safe harbors exist for transactions if specific timing conditions are met as to when agreements or substantial negotiations relating to such transactions occur and a safe harbor exists for certain issuances pursuant to compensatory employment-related arrangements.

***Miscellaneous***

The tax sharing agreement also provides that Forest and Forest Energy Resources will cooperate with each other and exchange necessary information in connection with tax audits and examinations and the tax sharing agreement contains provisions entitling the appropriate party to control particular tax audits and controversies.

**Employee Benefits Agreement**

Forest and Forest Energy Resources have entered into an employee benefits agreement that provides for the transfer of the employees of the Forest Gulf of Mexico operations to Forest Energy Resources, effective upon completion of the spin-off. The employee benefits agreement is filed as an exhibit to this registration statement of which this proxy statement/ prospectus-information statement is a part.

The employee benefits agreement also allocates the assets and liabilities under certain existing Forest employee benefit plans and other employment-related liabilities to Forest and Forest Energy Resources, respectively. In general, at the time of the spin-off, Forest Energy Resources will assume the liabilities relating to the former employees of the Forest Gulf of Mexico operations arising after the date of the spin-off and other specified liabilities, and Forest will retain the pre-spin-off liabilities relating to the Forest Gulf of Mexico operations employees and all liabilities relating to its continuing employees. The employee benefits agreement also:

sets forth the rights of the Forest Gulf of Mexico operations employees under certain of the Forest plans in which they previously participated, including with respect to the portion of their stock options that are exercisable at the effective time of the merger; and

**Table of Contents**

provides for the assumption by Forest Energy Resources of certain liabilities of Forest relating to employees who are transferred to Forest Energy Resources, including the assumption of liabilities under Forest's educational assistance plan and accrued vacation liabilities.

Pursuant to the employee benefits agreement, each of Forest Energy Resources and Forest has agreed that, without the prior consent of the other, it will not solicit employees of the other party for two years following the spin-off date.

**Transition Services Agreement**

Forest and Forest Energy Resources have entered into a transition services agreement under which Forest will provide services to Forest Energy Resources on an as-needed basis for a limited period of time after the merger.

**Table of Contents****FINANCING ARRANGEMENTS RELATING TO THE SPIN-OFF AND THE MERGER**

At the closing of the merger, Mariner and Mariner Energy Resources expect to enter into a new \$500 million senior secured revolving credit facility, and Mariner also will obtain a \$40 million senior secured letter of credit facility. The revolving credit facility will mature on the fourth anniversary of the closing, and the letter of credit facility will mature on the third anniversary of the closing. We may use the borrowings under the revolving credit facility to retire existing debt, to facilitate the merger and for general corporate purposes. The letter of credit facility will be used to obtain a letter of credit in favor of Forest to secure our performance of our obligations under an existing drill-to-earn program.

The outstanding principal balance of loans under the revolving credit facility may not exceed the borrowing base, which initially will be set at \$400 million. The borrowing base will be redetermined semi-annually by the lenders, subject to reduction by Mariner. In addition, the agent and Mariner may request one additional redetermination during the interval between each scheduled redetermination, and the agent may require redeterminations in connection with certain material dispositions. If the borrowing base falls below the outstanding balance under the revolving credit facility, we will be required to prepay the deficit, pledge additional unencumbered collateral or some combination of such prepayment and pledge.

Interest under the revolving credit facility will be determined by reference to the following grid:

Usage as a % Borrowing Base	Applicable Margin		
	LIBOR Loans	Reference Rate Loans	Unused Fee
Less than 50%	1.25%	0.00%	0.375%
51% to 75%	1.50%	0.00%	0.375%
76% to 90%	1.75%	0.25%	0.250%
Greater than 90%	2.00%	0.50%	0.250%

Interest will be payable quarterly for Union Bank of California Reference Rate loans and at the applicable maturity date for LIBOR (London interbank offered rate) loans. The fee for letters of credit issued under the revolving credit facility will be the LIBOR margin indicated in the grid, per annum. The fee for letters of credit under the letter of credit facility will be 1.50% due quarterly in advance.

The obligations under the credit facilities will be secured by first priority liens on substantially all of our real and personal property, including our existing and after-acquired oil and gas properties and related real property interests. Additionally, the obligations under the credit facilities will be guaranteed by us and each of our subsidiaries.

The credit facilities will contain various covenants that limit our ability to do the following, among other things:

incur certain indebtedness;

grant certain liens;

merge or consolidate with another entity;

sell unmortgaged property or other assets which generate proceeds in excess of 10% of the borrowing base;

sell assets comprising collateral pledged to the lenders;

make certain loans and investments;

enter new lines of business; and

permit certain trade payables to exceed 90 days.

93

---

**Table of Contents**

The credit facilities also will contain covenants, which, among other things, require us to maintain specified ratios or conditions as follows:

consolidated current assets plus the unused borrowing base to consolidated current liabilities of not less than 1.0 to 1.0; and

total debt to EBITDA of not more than 2.5 to 1.0.

If an event of default exists under the credit facilities, the lenders will be able to accelerate the maturity of the credit facilities and exercise other rights and remedies. Events of default will include defaults in payment or performance under the credit facilities, misrepresentations, cross-defaults to other debt or material obligations, and insolvency, material adverse judgments, change of control (including certain changes in ownership and in the event Mr. Scott D. Josey ceases to be involved in Mariner's management, the failure to timely replace him with someone with comparable qualifications) and any material adverse change.

**Table of Contents****UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION**

The following unaudited pro forma combined financial information and explanatory notes present how the combined financial statements of Mariner and the Forest Gulf of Mexico operations may have appeared had the businesses actually been combined as of September 30, 2005 (with respect to the balance sheet information using currently available fair value information) or as of January 1, 2004 (with respect to statements of operations information). The unaudited pro forma combined financial information shows the impact of the merger on the historical financial position and results of operations under the purchase method of accounting with Mariner treated as the acquirer. Under this method of accounting, the assets and liabilities of the Forest Gulf of Mexico operations are recorded by Mariner at their estimated fair values as of the date the merger is completed.

The unaudited pro forma combined balance sheet as of September 30, 2005 assumes the merger was completed on that date. The unaudited pro forma combined statements of operations gives effect to the merger as if it had been completed on January 1, 2004. The merger agreement was executed on September 9, 2005 and provides for Mariner to issue approximately 50.6 million shares of common stock as consideration to Forest Energy Resources common stockholders.

The unaudited pro forma combined financial information has been derived from and should be read together with the historical consolidated financial statements of Mariner and the statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations, which are included herein. The statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations do not include all of the costs of doing business.

The Unaudited Pro Forma Combined Condensed Financial Information is for illustrative purposes only. The financial results may have been different had the Forest Gulf of Mexico operations been an independent company and had the companies always been combined. You should not rely on the Unaudited Pro Forma Combined Condensed Financial Information as being indicative of the historical results that would have been achieved had the merger occurred in the past or the future financial results that Mariner will achieve after the merger.

In addition, the purchase price allocation is preliminary and will be finalized following the closing of the merger. The final purchase price allocation will be determined after closing based on the actual fair value of current assets, current liabilities, indebtedness, long-term liabilities, proven and unproven oil and gas properties, identifiable intangible assets and the final number of shares of Mariner common stock issued in the merger and for unvested stock options that are outstanding at closing. We are continuing to evaluate all of these items; accordingly, the final purchase price may differ in material respects from that presented in the Unaudited Pro Forma Combined Condensed Balance Sheet.

The combination of the Forest Gulf of Mexico operations with Mariner's is expected to cause the average reserve life of Mariner's oil and gas properties to decrease from current levels and to result in a higher rate of depreciation, depletion, and amortization for the combined operations. For example, the estimated proved reserves of the Forest Gulf of Mexico properties as of June 30, 2005 were 328 Bcfe and production for the six months ended June 30, 2005 (prior to hurricane related disruptions) was approximately 40.8 Bcfe, a reserve life on an annualized basis of 4.0. This ratio is indicative of the relatively higher productive rates of offshore oil and gas properties when compared to most onshore fields. While the higher productive rates generally result in a faster return on investment than onshore fields, they also result in a faster depletion of the underlying proved reserves and a resulting higher rate of depreciation, depletion, and amortization. As of June 30, 2005, Mariner's proved reserves totaled 328 Bcfe and production for the six months ended June 30, 2005 (prior to hurricane disruptions) was approximately 16.5 Bcfe, a reserve life on an annualized basis of 9.9. For the combined operations, as of June 30, 2005, proved reserves would have totaled approximately 599 Bcfe and production for the six months ended June 30, 2005 would have totaled 57.3 Bcfe, a reserve life on an annualized basis of 5.7. Mariner will also write-up the Forest Gulf of Mexico operations to estimated fair value as of the merger date, which is also expected to cause the underlying DD&A rate to increase for the combined operations.



**Table of Contents**

In connection with the merger, Mariner and Mariner Energy Resources expect to enter into a \$500 million senior secured revolving credit facility, and Mariner also expects to obtain a \$40 million senior secured letter of credit facility. The initial borrowing base of the revolving credit facility will be \$400 million. The revolving credit facility will mature on the fourth anniversary of the closing and may be used for general corporate purposes. The letter of credit facility will mature on the third anniversary of the closing.

In connection with the spin-off and the payment of the cash amount by Forest Energy Resources to Forest pursuant to the distribution agreement, Forest Energy Resources intends to enter into a new senior term loan facility with Union Bank of California, or UBOC, as lender, in an amount equal to the lesser of the cash amount, plus the amount of the arrangement and upfront fees and expenses associated with the facility, and \$200 million, plus the amount of the arrangement and upfront fees and expenses associated with the facility. At Forest Energy Resources election, interest will be determined by reference to (1) the UBOC Reference Rate or (2) the London interbank offered rate, or LIBOR, plus 1.50% per annum. In the event that any portion of the facility is outstanding after 30 days, the interest rate will increase, at Forest Energy Resources election, to (1) the UBOC Reference Rate, plus 5% per annum or (2) LIBOR plus 6.50% per annum. Interest will be payable at the applicable maturity date for LIBOR-loans and quarterly for UBOC Reference Rate loans.

The Forest Energy Resources facility is expected to be repaid with borrowings under Mariner's and Mariner Energy Resources' \$500 million revolving credit facility. The facility will mature 90 days from closing of the spin-off and merger and the principal will be due at maturity. Prepayments will be permitted at any time without premium or penalty (except for breakage and related costs associated with prepayments of Eurodollar loans), subject to minimum amount requirements. The facility will be unsecured with a negative pledge on Forest Energy Resources' existing oil and gas properties and all other assets of Forest Energy Resources.

The facility will contain various covenants that limit Forest Energy Resources' ability to do the following, among other things, except as contemplated by the distribution agreement and the merger agreement:

incur indebtedness;

grant certain liens;

merge or consolidate with another entity;

sell assets except in the ordinary course of business;

make certain loans and investments; and

permit trade payables to exceed 90 days.

If an event of default exists under the facility, the lender will be able to accelerate the maturity of the facility and exercise other rights and remedies. Events of default include defaults in payment or performance under the facility, misrepresentations, cross-defaults to other debt or material obligations of Forest Energy Resources, and insolvency, material judgments, certain changes of ownership, and any material adverse change affecting Forest Energy Resources.

Table of Contents

**MARINER ENERGY, INC.**  
**UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET**  
**As of September 30, 2005**

	Mariner Historical	Merger Adjustments(1)	Mariner Pro Forma Combined
(In thousands)			
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 4,564	\$	\$ 4,564
Receivables	50,259		50,259
Deferred tax asset	30,480		30,480
Prepaid expenses and other	18,732	2,874(2)	21,606
Total current assets	104,035	2,874	106,909
<b>Property and Equipment, net</b>	393,258	1,463,846(3)	1,857,104
<b>Goodwill</b>		142,000(3)	142,000
<b>Other Assets, net of amortization</b>	4,916	7,597(2)	12,513
<b>TOTAL ASSETS</b>	<b>\$ 502,209</b>	<b>\$ 1,616,317</b>	<b>\$ 2,118,526</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$ 14,573	\$	\$ 14,573
Accrued liabilities	88,993	32,491(2)	121,484
Accrued interest	141		141
Derivative liability	76,902	108,031(2)	184,933
Total current liabilities	180,609	140,522	321,131
<b>Long-Term Liabilities:</b>			
Abandonment liability	26,314	116,203(2)	142,517
Deferred income tax	6,468	168,852(4)	175,320
Derivative liability	28,221	17,203(2)	45,424
Bank debt	75,000	200,000(5)	275,000
Note payable	4,000		4,000
New debt			
Other long-term liabilities	3,000		3,000
Total long-term liabilities	143,003	502,258	645,261
<b>Stockholders Equity:</b>			
Common stock	4	5(6)	9
Additional paid-in capital	171,667	973,532(3)	1,145,199
Unearned compensation	(14,548)		(14,548)
Accumulated other comprehensive (loss)	(67,708)		(67,708)
Accumulated retained earnings	89,182		89,182

Total stockholders equity	178,597	973,537	1,152,134
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	\$ 502,209	\$ 1,616,317	\$ 2,118,526

Table of Contents

**MARINER ENERGY, INC.**  
**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**  
**For the Nine Months Ended September 30, 2005**

	<b>Mariner Historical</b>	<b>Forest Energy Resources, Inc. Historical(7)</b>	<b>Merger Adjustments(1)</b>	<b>Mariner Pro Forma Combined</b>
<b>(In thousands)</b>				
<b>Revenues:</b>				
Oil & gas sales	\$ 148,492	\$ 326,722	\$	\$ 475,214
Other revenues	2,753			2,753
Total revenues	151,245	326,722		477,967
<b>Costs and Expenses:</b>				
Lease operating expenses	20,170	59,379		79,549
Transportation expenses	1,697	2,484		4,181
General and administrative expenses	26,726			26,726
Depreciation, depletion and amortization	43,457		201,255(8)	244,712
Impairment of production equipment held for use	498			498
Total costs and expenses	92,548	61,863	201,255	355,666
<b>OPERATING INCOME</b>	58,697	264,859	(201,255)	122,301
<b>Interest:</b>				
Income	696			696
Expense, net of amounts capitalized	(5,416)		(8,010)(9)	(13,426)
<b>Income before taxes</b>	53,977		(209,265)	109,571
<b>Provision for income taxes</b>	(18,414)		(19,936)(10)	(38,350)
<b>NET INCOME</b>	35,563		(229,201)	71,221
<b>Earnings per share:</b>				
<b>Net Income per share basic</b>	1.10			0.86
<b>Net Income per share diluted</b>	1.07			0.85
<b>Weighted average shares outstanding basic</b>	32,438,240		50,637,010	83,075,250
<b>Weighted average shares outstanding diluted</b>	33,312,831		50,637,010	83,949,841



**Table of Contents**

**MARINER ENERGY, INC.**  
**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**  
**For the Year Ended December 31, 2004**

	<b>Mariner Historical</b>	<b>Forest Energy Resources, Inc. Historical(7)</b>	<b>Merger Adjustments(1)</b>	<b>Mariner Pro Forma Combined</b>
<b>(In thousands)</b>				
<b>Revenues:</b>				
Oil & gas sales	\$ 214,187	\$ 453,139	\$	\$ 667,326
Other revenues				
Total revenues	214,187	453,139		667,326
<b>Costs and Expenses:</b>				
Lease operating expenses	25,484	81,627		107,111
Transportation expenses	3,029	2,175		5,204
General and administrative expenses	8,772			8,772
Depreciation, depletion and amortization	64,911		303,261(8)	368,172
Impairment of production equipment held for use	957			957
Total costs and expenses	103,153	83,802	303,261	490,216
<b>OPERATING INCOME</b>	111,034	369,337	(303,261)	177,110
<b>Interest:</b>				
Income	316			316
Expense, net of amounts capitalized	(6,050)		(7,840)(9)	(13,890)
<b>Income before taxes</b>	105,300		(311,101)	163,536
<b>Provision for income taxes</b>	(36,855)		(20,383)(10)	(57,238)
<b>NET INCOME</b>	68,445		(331,484)	106,298
<b>Earnings per share:</b>				
<b>Net Income per share basic</b>	2.30			1.32
<b>Net Income per share diluted</b>	2.30			1.32
<b>Weighted average shares outstanding basic</b>	29,748,130		50,637,010	80,385,140
<b>Weighted average shares outstanding diluted</b>	29,748,130		50,637,010	80,385,140



**Table of Contents**

**Notes to Unaudited Pro Forma Combined Condensed Financial Data**

The unaudited Mariner Pro Forma Combined financial data have been prepared to give effect to Mariner's acquisition of the Forest Gulf of Mexico operations, which will be spun off to Forest shareholders. Information under the heading Merger Adjustments gives effect to the adjustments related to the acquisition of the Forest Gulf of Mexico operations. The unaudited pro forma combined condensed statements are not necessarily indicative of the results of Mariner's future operations.

The unaudited pro forma combined financial information has been derived from and should be read together with the historical consolidated financial statements of Mariner and the statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations. The statements of revenues and direct operating expenses of the Forest Gulf of Mexico operations do not include all of the costs of doing business.

- (1) Transaction costs consisting of accounting, consulting and legal fees are anticipated to be approximately \$12 million. These costs are directly attributable to the transaction and have been excluded from the pro forma financial statements as they represent material nonrecurring charges.
- (2) To record other current and long-term assets that we will receive in the spin-off and liabilities that we will assume as a result of the spin-off reflected at their estimated fair market values, including inventory of \$2.1 million, abandonment escrows of \$0.7 million, gas imbalances of \$7.6 million, asset retirement obligations of \$146.6 million and derivative liabilities of \$125.2 million.
- (3) To record the preliminary purchase price allocation to the fair value of assets acquired, including oil and gas properties and goodwill. These adjustments also adjust depreciation, depletion and amortization expense to give effect to the acquisition of the Forest Gulf of Mexico operations and their step-up in value using the unit of production method under the full cost method of accounting.
- (4) To record the deferred tax position of the combined company, inclusive of the deferred tax gross-up in connection with the acquisition.
- (5) To record \$200.0 million of debt that Forest Energy Resources, Inc. will incur under the terms of the distribution agreement. The actual amount of debt to be incurred will be adjusted to reflect the net cash proceeds generated by the Forest Gulf of Mexico operations since June 30, 2005 pursuant to the terms of the distribution agreement. Mariner plans to refinance the debt, which will mature 90 days after the closing, with a revolving credit facility that matures on the fourth anniversary of the closing. Forest Energy Resources, Inc. will be primarily liable for all indebtedness incurred in connection with the spin-off or any refinancing thereof.
- (6) To record issuance of 50,637,010 shares of common stock at par value of \$.0001 per share.
- (7) The Forest Gulf of Mexico operations historically have been operated as part of Forest's total oil and gas operations. No historical GAAP-basis financial statements exist for the Forest Gulf of Mexico operations on a stand-alone basis; however, statements of revenues and direct operating expenses are presented for the year ended December 31, 2004 (audited) and for the nine months ended September 30, 2005 (unaudited).
- (8) To adjust depreciation, depletion and amortization expense to give effect to the acquisition of the Forest Gulf of Mexico operations and their step-up in value using the unit of production method under the full cost method of accounting.
- (9) To adjust interest expense to give effect to the financing activities in connection with the organization of Forest Energy Resources, Inc. assuming an interest rate of 5.34% for the nine months ended September 30, 2005 and



3.92% for the year ended December 31, 2004 based on the terms of the senior term loan facility to be obtained by Forest Energy Resources. The interest rates used reflect 30-day LIBOR plus 1.50%, or 5.34% as of September 30, 2005 and 3.92% as of December 31, 2004. A change in interest rates of  $\frac{1}{8}$  percent would result in a change in interest expense of approximately \$0.1 million and \$0.2 million for the nine months ended September 30, 2005, and the year ended December 31, 2004, respectively.

- (10) To record income tax expense on the combined company results of operations based on a statutory combined federal and state tax rate of 35%.

**Table of Contents****Supplemental Pro Forma Combined Oil and Gas Reserve and Standardized Measure Information (Unaudited)**

The following unaudited supplemental pro forma oil and natural gas reserve tables present how the combined oil and gas reserve and standardized measure information of Mariner and the Forest Gulf of Mexico operations may have appeared had the businesses actually been combined as of December 31, 2004. The Supplemental Pro Forma Combined Oil and Gas Reserve and Standardized Measure Information is for illustrative purposes only. You should refer to footnote 10 in Mariner's Notes to the Financial Statements beginning on page F-30 and footnote 3 in Forest Gulf of Mexico Operations Notes to Statements of Revenues and Direct Operating Expenses beginning on page F-37 for additional information presented in accordance with the requirements of Statement of Financial Accounting Standards No. 69, Disclosures About Oil and Gas Producing Activities.

**ESTIMATED PRO FORMA COMBINED QUANTITIES OF PROVED RESERVES**

	Mariner Historical				?Forest Energy Resources, Inc. Historical?		Mariner Pro Forma Combined		
	Oil (Mbbl)	Natural Gas (MMcf)	Natural Gas Equivalent (Mmcfe)	Liquids (Mbbl)	Natural Gas (MMcf)	Natural Gas Equivalent (Mmcfe)	Liquids (Mbbl)	Natural Gas (MMcf)	Natural Gas Equivalent (Mmcfe)
December 31, 2003	13,079	127,584	206,060	11,357	295,347	363,489	24,436	422,931	569,549
Revisions of previous estimates	1,249	19,797	27,291	1,693	(2,860)	7,298	2,942	16,937	34,589
Extensions, discoveries and other additions	2,225	28,334	41,684	630	14,449	18,229	2,855	42,783	59,913
Sales of reserves in place									
Production	(2,298)	(23,782)	(37,570)	(3,230)	(61,684)	(81,064)	(5,528)	(85,466)	(118,634)
Purchases of reserves in place				1,200	24,556	31,756	1,200	24,556	31,756
December 31, 2004	14,255	151,933	237,465	11,650(1)	269,808	339,708	25,905(1)	421,741	577,173

(1) Includes 598 Mbbls of natural gas liquids.

**ESTIMATED PRO FORMA COMBINED QUANTITIES OF PROVED DEVELOPED RESERVES**

**?Forest Energy Resources,  
Inc.**

	<b>Mariner Historical</b>				<b>Historical?</b>			<b>Mariner Pro Forma Combined</b>	
	<b>Oil</b>	<b>Natural Gas</b>	<b>Natural Gas Equivalent</b>	<b>Liquids</b>	<b>Natural Gas</b>	<b>Natural Gas Equivalent</b>	<b>Liquids</b>	<b>Natural Gas</b>	<b>Natural Gas Equivalent</b>
	<b>(Mbbl)</b>	<b>(MMcf)</b>	<b>(Mmcfe)</b>	<b>(Mbbl)</b>	<b>(MMcf)</b>	<b>(Mmcfe)</b>	<b>(Mbbl)</b>	<b>(MMcf)</b>	<b>(Mmcfe)</b>
December 31, 2004	6,339	71,361	109,395	9,471	201,759	258,585	15,810	273,120	367,980

**Table of Contents****PRO FORMA COMBINED STANDARDIZED MEASURE OF DISCOUNTED  
FUTURE NET CASH FLOWS****For the Year Ending December 31, 2004**

	<b>Mariner Historical</b>	<b>Forest Energy Resources, Inc. Historical</b>	<b>Mariner Pro Forma Combined</b>
Future cash inflows	\$ 1,601,240	\$ 2,155,217	\$ 3,756,457
Future production costs	(308,190)	(272,020)	(580,210)
Future development costs	(193,689)	(357,592)	(551,281)
Future income taxes	(285,701)	(412,477)	(698,178)
Future net cash flows	813,660	1,113,128	1,926,788
Discount of future net cash flows at 10% per annum	(319,278)	(187,291)	(506,569)
Standardized measure of discounted future net cash flows	\$ 494,382	925,837	1,420,219
Balance, beginning of period	\$ 418,159	\$ 949,421	\$ 1,367,580
Increase (decrease) in discounted future net cash flows:			
Sales and transfers of oil and gas produced, net of production costs	(185,673)	(426,405)	(612,078)
Net changes in prices and production costs	27,767	11,628	39,395
Extensions and discoveries, net of future development and production costs	102,905	88,999	191,904
Development costs during period and net change in development costs	44,417	79,642	124,059
Revision of previous quantity estimates	89,814	28,701	118,515
Sales of reserves in place			
Net change in income taxes	(27,634)	(28,550)	(56,184)
Purchases of reserves in place		100,681	100,681
Accretion of discount before income taxes	41,816	121,720	163,536
Changes in production rates (timing) and other	(17,189)		(17,189)
Balance, end of period	\$ 494,382	\$ 925,837	\$ 1,420,219

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA FOR MARINER**

The following table shows Mariner's historical consolidated financial data as of and for each of the four years ended December 31, 2003, the period from January 1, 2004 through March 2, 2004, the period from March 3, 2004 through December 31, 2004, the period from March 3, 2004 through September 30, 2004 and the nine-month period ended September 30, 2005. The historical consolidated financial data as of and for the four years ended December 31, 2003, the period from January 1, 2004 through March 2, 2004 and the period from March 3, 2004 through December 31, 2004 are derived from Mariner's audited financial statements included herein, and the historical consolidated financial data for the period from March 3, 2004 through September 30, 2004 and the nine-month period ended September 30, 2005 are derived from unaudited financial statements of Mariner. You should read the following data in connection with Management's Discussion and Analysis of Financial Condition and Results of Operations of Mariner and the consolidated financial statements included elsewhere in this proxy statement/ prospectus-information statement, where there is additional disclosure regarding the information in the following table, including pro forma information regarding the merger. Mariner's historical results are not necessarily indicative of results to be expected in future periods.

On March 2, 2004, Mariner's former indirect parent, Mariner Energy LLC, merged with MEI Acquisitions Holdings, LLC, an affiliate of the private equity funds, Carlyle/ Riverstone Global Energy and Power Fund II, L.P. and ACON Investments LLC. The financial information contained herein is presented in the style of Pre-2004 Merger activity (for all periods prior to March 2, 2004) and Post-2004 Merger activity (for the March 3, 2004 through December 31, 2004 period and the March 3, 2004 through September 30, 2004 period) to reflect the impact of the restatement of assets and liabilities to fair value as required by push-down purchase accounting at the March 2, 2004 merger date.

	Post-2004 Merger			Pre-2004 Merger			
	Period from March 3, 2004 through September 30, 2004	Period from March 3, 2004 through December 31, 2004	Period from January 1, 2004 through March 2, 2004	Year Ended December 31,			
Nine Months Ended September 30, 2005	September 30, 2004	December 31, 2004	March 2, 2004	2003	2002	2001	2000

(In millions, except per share data)

<b>Statement of Operations Data:</b>								
Total revenues(1)	\$ 151.2	\$ 122.5	\$ 174.4	\$ 39.8	\$ 142.5	\$ 158.2	\$ 155.0	\$ 121.1
Lease operating expenses	20.2	15.1	21.4	4.1	24.7	26.1	20.1	17.2
Transportation expenses	1.7	3.7	1.9	1.1	6.3	10.5	12.0	7.8
Depreciation, depletion and amortization	43.4	37.4	54.3	10.6	48.3	70.8	63.5	56.8
Impairment of production equipment held for	0.5	1.0	1.0					

use									
Derivative settlement						3.2			
Impairment of Enron related receivables							3.2	29.5	
General and administrative expenses	26.7	6.2	7.6	1.1	8.1	7.7	9.3	6.5	
Operating income	58.7	59.1	88.2	22.9	51.9	39.9	20.6	32.8	
Interest income	0.7	0.2	0.2	0.1	0.8	0.4	0.7	0.1	
Interest expense	(5.4)	(4.4)	(6.0)		(7.0)	(10.3)	(8.9)	(11.0)	
Income before income taxes	54.0	54.9	82.4	23.0	45.7	30.0	12.4	21.9	
Provision for income taxes	(18.4)	(19.2)	(28.8)	(8.1)	(9.4)				
Income before cumulative effect of change in accounting method net of tax effects	35.6	35.7	53.6	14.9	36.3	30.0	12.4	21.9	
Income before cumulative effect per common share									
Basic	1.10	1.20	1.80	.50	1.22	1.01	.42	.74	
Diluted	1.07	1.20	1.80	.50	1.22	1.01	.42	.74	
Cumulative effect of changes in accounting method					1.9				
Net income	\$ 35.6	\$ 35.7	\$ 53.6	\$ 14.9	\$ 38.2	\$ 30.0	\$ 12.4	\$ 21.9	
Net income per common share									
Basic	1.10	1.20	1.80	.50	1.29	1.01	.42	.74	
Diluted	1.07	1.20	1.80	.50	1.29	1.01	.42	.74	
<b>Capital Expenditure and Disposal Data:</b>									
Exploration, including leasehold/seismic	\$ 23.6	\$ 35.7	\$ 40.4	\$ 7.5	\$ 31.6	\$ 40.4	\$ 66.3	\$ 46.7	
Development and other	106.8	50.2	93.2	7.8	51.7	65.7	98.2	61.4	
Proceeds from property conveyances					(121.6)	(52.3)	(90.5)	(29.0)	
	\$ 130.4	\$ 85.9	\$ 133.6	\$ 15.3	\$ (38.3)	\$ 53.8	\$ 74.0	\$ 79.1	

Total capital  
expenditures net of  
proceeds from  
property  
conveyances

(1) Includes effects of hedging.

103

---

**Table of Contents**

	Post-2004 Merger		Pre-2004 Merger			
	September 30, 2005	December 31, 2004	2003	December 31,		2000
				2002	2001	
(In millions)						
<b>Balance Sheet Data:(1)</b>						
Property and equipment, net, full cost method	\$ 393.3	\$ 303.8	\$ 207.9	\$ 287.6	\$ 290.6	\$ 287.8
Total assets	502.2	376.0	312.1	360.2	363.9	335.4
Long-term debt, less current maturities	79.0	115.0		99.8	99.8	129.7
Stockholder s equity	178.6	133.9	218.2	170.1	180.1	141.9
Working capital (deficit)(2)	(30.2)	(18.7)	38.3	(24.4)	(19.6)	(15.4)

- (1) Balance sheet data as of December 31, 2004 reflects purchase accounting adjustments to oil and gas properties, total assets and stockholder s equity resulting from the acquisition of our former indirect parent on March 2, 2004.
- (2) Working capital (deficit) excludes current derivative assets and liabilities, deferred tax assets and restricted cash.

	Post-2004 Merger		Pre-2004 Merger		Pre-2004 Merger			
	Nine Months Ended September 30, 2005	Period from March 3, 2004 through September 30, 2004	Period from March 3, 2004 through December 31, 2004	Period from January 1, 2004 through March 2, 2004	Year Ended December 31,			
					2003	2002	2001	2000
(In millions)								
<b>Other Financial Data:</b>								
EBITDA(1)	\$ 102.7	\$ 97.5	\$ 143.5	\$ 33.4	\$ 100.3	\$ 113.9	\$ 113.6	\$ 89.6
Net cash provided by operating activities	135.4	96.8	135.9	20.3	103.5	60.3	113.5	63.9
Net cash (used) provided by investing activities	(142.1)	(85.9)	(133.6)	(15.3)	38.3	(53.8)	(74.0)	(79.1)
Net cash (used) provided by financing activities	8.7	(74.9)	64.9		(100.0)		(30.0)	17.4
<b>Reconciliation of Non-GAAP Measures:</b>								
EBITDA(1)	\$ 102.7	\$ 97.5	\$ 143.5	\$ 33.4	\$ 100.3	\$ 113.9	\$ 113.6	\$ 89.6



Changes in working capital	25.1	9.7	6.9	(13.2)	21.8	(20.4)	7.5	(15.5)
Non-cash hedge gain(2)	(3.6)	(5.1)	(7.9)		(2.0)	(23.2)		
Amortization/other	0.9	0.5	0.8			(0.1)	0.6	0.7
Stock compensation expense	17.6							
Net interest expense	(4.7)	(4.2)	(5.8)	0.1	(6.2)	(9.9)	(8.2)	(10.9)
Income tax expense	(2.6)	(1.6)	(1.6)		(10.4)			
Net cash provided by operating activities	\$ 135.4	\$ 96.8	\$ 135.9	\$ 20.3	\$ 103.5	\$ 60.3	\$ 113.5	\$ 63.9

(1) EBITDA means earnings before interest, income taxes, depreciation, depletion and amortization. For the nine months ended September 30, 2005, EBITDA includes \$17.6 million in non-cash stock compensation expense related to restricted stock and stock options granted in 2005. We believe that EBITDA is a widely accepted financial indicator that provides additional information about our ability to meet our future requirements for debt service, capital expenditures and working capital, but EBITDA should not be considered in isolation or as a substitute for net income, operating income, net cash provided by

**Table of Contents**

operating activities or any other measure of financial performance presented in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

- (2) In accordance with SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and No. 138, we de-designated our contracts effective December 2, 2001 after the counterparty (an affiliate of Enron Corp.) filed for bankruptcy and recognized all market value changes subsequent to such de-designation in our earnings. The value recorded up to the time of de-designation and included in Accumulated Other Comprehensive Income ( AOCI ), has reversed out of AOCI and into earnings as the original corresponding production, as hedged by the contracts, is produced. We have designated subsequent hedge contracts as cash flow hedges with gains and losses resulting from the transactions recorded at market value in AOCI, as appropriate, until recognized as operating income in our Statement of Operations as the physical production hedged by the contracts is delivered.

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF MARINER**

**Overview**

On March 2, 2004, Mariner's former indirect parent, Mariner Energy LLC, merged with MEI Acquisitions Holdings, LLC, an affiliate of the private equity funds, Carlyle/ Riverstone Global Energy and Power Fund II, L.P. and ACON Investments LLC. Prior to the merger, we were owned indirectly by JEDI, which was an indirect wholly-owned subsidiary of Enron Corp. The gross merger consideration was \$271.1 million (which excludes \$7.0 million of acquisition costs and other expenses paid directly by Mariner), \$100 million of which was provided as equity by our new owners. As a result of the merger, we are no longer affiliated with Enron Corp. See Mariner Enron Related Matters. The merger did not result in a change in our strategic direction or operations. The financial information contained herein is presented in the style of Pre-2004 Merger activity (for all periods prior to March 2, 2004) and Post-2004 Merger activity (for the March 3, 2004 through December 31, 2004 period) to reflect the impact of the restatement of assets and liabilities to fair value as required by push-down purchase accounting at the March 2, 2004 merger date. The application of push-down accounting had no effect on our 2004 results of operations other than immaterial increases in depreciation, depletion and amortization expense and interest expense and a related decrease in our provision for income taxes. To facilitate management's discussion and analysis of financial condition and results of operations, we have presented 2004 financial information as Pre-2004 Merger (for the January 1 through March 2, 2004 period), Post-2004 Merger (for the March 3, 2004 through December 31, 2004 period), Combined (for the full period from January 1 through December 31, 2004), Post-2004 Merger (for the March 3, 2004 through September 30, 2004 period) and Combined (for the full period from January 1, 2004 through September 30, 2004). The combined presentation does not reflect the adjustments to our statement of operations that would be reflected in a pro forma presentation. However, because such adjustments are not material, we believe that our combined presentation presents a fair presentation and facilitates an understanding of our results of operations.

In March 2005 we completed a private placement of 16,350,000 shares of our common stock to qualified institutional buyers, non-U.S. persons and accredited investors, which generated approximately \$229 million of gross proceeds, or approximately \$211 million net of initial purchaser's discount, placement fee and offering expenses. Our former sole stockholder, MEI Acquisitions Holdings, LLC, also sold 15,102,500 shares of our common stock in the private placement. We used \$166 million of the net proceeds from the sale of 12,750,000 shares of common stock to purchase and retire an equal number of shares of our common stock from our former sole stockholder. We used \$39 million of the remaining net proceeds of approximately \$45 million to repay borrowings drawn on our credit facility, and the balance to pay down \$6 million of a \$10 million promissory note payable to JEDI. See Mariner Enron Related Matters. As a result, after the private placement, an affiliate of MEI Acquisitions Holdings, LLC beneficially owned approximately 5.3% of our outstanding common stock. This affiliate subsequently acquired an additional % of our outstanding common stock.

We are an independent oil and natural gas exploration, development and production company with principal operations in the Gulf of Mexico and the Permian Basin in West Texas. In the Gulf of Mexico, our areas of operation include the deepwater and the shelf area. We have been active in the Gulf of Mexico and West Texas since the mid-1980s. During the last three years, as a result of increased drilling of shelf prospects and development drilling in our Aldwell Unit, we have evolved from a company with primarily a deepwater focus to one with a balance of exploitation and exploration of the Gulf of Mexico deepwater and shelf, and longer-lived Permian Basin properties.

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and gas and our ability to find, develop and acquire oil and gas reserves that are economically recoverable while controlling and reducing costs. The energy markets have historically been very volatile. Commodity prices are currently at or near historical highs and may fluctuate and decline significantly in the future. Although we attempt to mitigate the impact of price declines through our hedging strategy, a substantial or extended decline in oil and natural gas prices or poor drilling results could have a material adverse effect on our financial position, results

**Table of Contents**

of operations, cash flows, quantities of natural gas and oil reserves that we can economically produce and our access to capital.

***Recent Developments***

Approximately 29 Mmcfe per day of natural gas and approximately 3,000 bbls per day of oil and condensate net to our interest were initially shut-in as a result of the effects of Hurricane Katrina in August 2005. The majority of this production was returned within two weeks of the hurricane, and substantially all within three weeks of the hurricane. Additionally, we are experiencing delays in startup of three of our projects primarily as a result of Hurricane Katrina which is anticipated to defer commencement of production to as late as the second quarter of 2006. Approximately 60 MMcfe per day of production net to our interest was shut-in initially as a result of the effects of Hurricane Rita in late September 2005. Approximately 53 MMcfe per day of production, or approximately 90% of our pre-hurricane production, was restored within two weeks of the hurricane. Our operated platforms appear to have sustained minimal damage attributable to the storm. First reports from operators of other facilities handling our production indicated varying degrees of damage to their facilities, the full extent of which may not be known for some time. Although a submersible rig engaged in drilling operations on our East Cameron Block 79 property was moved off location by Hurricane Rita, a substitute rig was subsequently provided, the damage to the well was repaired and drilling recommenced in the last quarter of 2005. Other planned operations also are delayed as a result of the effects of both hurricanes. We cannot estimate a range of loss arising from the hurricanes until we are able to more completely assess the impacts on our properties and the properties of our operational partners. Until we are able to complete all the repair work and submit costs to our insurance underwriters for review, the full extent of our insurance recovery and the resulting net cost to us for Hurricanes Katrina and Rita will be unknown. For the insurance period ending September 30, 2005, we carry a \$3.0 million annual deductible and a \$.375 million single occurrence deductible.

We entered into an agreement effective in October 2005 covering approximately 33,000 acres in West Texas, pursuant to which, upon closing, we acquired an approximate 35% working interest in approximately 200 existing producing wells effective November 1, 2005, and committed to drill an additional 150 wells within a four year period, funding \$36.5 million of our partner's share of drilling costs for such 150-well drilling program. We will obtain an assignment of an approximate 35% working interest in the entire committed acreage upon completion of the 150-well program.

***Nine Months Ended September 30, 2005 Highlights***

During the first nine months of 2005, we recognized net income of \$35.6 million on total revenues of \$151.2 million compared to net income of \$50.5 million on total revenues of \$162.3 million in the first nine months of 2004. Net income decreased 30% compared to the first nine months of 2004, primarily due to recognizing \$17.6 million of stock compensation expense in the first nine months of 2005, and a 21% decrease in production, partially offset by higher realized net oil and gas prices. We produced approximately 22.5 Bcfe during the first nine months of 2005 and our average daily production rate was 82 Mmcfe compared to 28.4 Bcfe, or 104 Mmcfe per day, for the same period in 2004. Production during the third quarter of 2005 was negatively impacted by the effects of the 2005 hurricane season. We invested approximately \$130.3 million in oil and natural gas properties in the first nine months of 2005, compared to \$101.0 million in the same period in 2004.

Our first nine months 2005 results reflect the private placement of an additional 3.6 million shares of stock in March. The net proceeds of approximately \$45 million generated by the private placement were used to repay existing debt. We also granted 2,267,270 shares of restricted stock and options to purchase 809,000 shares of stock in the first nine months of 2005 and recorded compensation expense of \$17.6 million in the first nine months of 2005 related to the restricted stock and options.

**Table of Contents****2004 Highlights**

We recognized net income of \$68.4 million in 2004 compared to net income of \$38.2 million in 2003. The increase in net income was primarily the result of improvements in operating results, including a 13% increase in production volumes, a 21% improvement in the net commodity prices realized by us (before the effects of hedging) and an 8% decrease in lease operating expenses and transportation expenses on a per unit basis. These improvements were partially offset by an 8% increase in general and administrative expenses and a 34% increase in depreciation, depletion, and amortization expenses. Our hedging results also improved by \$9.7 million to a \$19.8 million loss, from a \$29.5 million loss in the prior year. In addition, we recorded income tax expenses of \$36.9 million in 2004 compared to \$9.4 million in 2003.

We have incurred and expect to continue to incur substantial capital expenditures. However, for the three years ended December 31, 2004, our capital expenditures of \$337.3 million have been below our combined cash flow from operations and proceeds from property sales.

During 2004, we increased our proved reserves by approximately 69 Bcfe, bringing estimated proved reserves as of December 31, 2004 to approximately 237.5 Bcfe after 2004 production of 37.6 Bcfe.

We had \$2.5 million and \$60.2 million in cash and cash equivalents as of December 31, 2004 and December 31, 2003, respectively.

**Production**

Three of our shelf properties, Ewing Bank 977 (Dice), West Cameron 333 (Royal Flush) and High Island 46 (Green Pepper) began producing in the first quarter of 2005. Our production for the first nine months of 2005 averaged approximately 53 MMcf of natural gas per day and approximately 4,900 barrels of oil per day or a total of approximately 82 MMcfe per day.

In the third quarter of 2005 our production was negatively impacted by Hurricanes Katrina and Rita. Production shut-in and deferred because of the hurricanes' impact totaled approximately 1.3 Bcfe during the third quarter of 2005. Currently approximately 7 MMcfe per day of production remains shut-in awaiting repairs, primarily associated with our Baccarat property. While we believe physical damage to our existing platforms and facilities was relatively minor from both hurricanes, the effects of the storms caused damage to onshore pipeline and processing facilities that resulted in a portion of our production being temporarily shut-in, or in the case of our Viosca Knoll 917 (Swordfish) project, postponed. In addition, Hurricane Katrina caused damage to platforms that host three of our development projects: Mississippi Canyon 718 (Pluto), Mississippi Canyon 296 (Rigel), and Mississippi Canyon 66 (Ochre). Repairs to these facilities may take up to six months, pushing commencement of production on these projects into 2006.

Our December 2004 total production averaged approximately 58 MMcf of natural gas per day and approximately 5,700 barrels of oil per day or total equivalents of approximately 92 MMcfe per day. Natural gas production comprised approximately 63% of total production. In September 2004, Mariner incurred damage from Hurricane Ivan that affected our Mississippi Canyon 66 (Ochre) and Mississippi Canyon 357 fields. Production from Mississippi Canyon 357 was shut-in until March 2005, when necessary repairs were completed and production recommenced. Production from Mississippi Canyon 66 (Ochre) remains shut-in and is expected to recommence in the first quarter of 2006. This field was producing at a net rate of approximately 6.5 MMcfe per day immediately prior to the hurricane.

Historically, a majority of our total production has been comprised of natural gas. We anticipate that our concentration in natural gas production will continue. As a result, Mariner's revenues, profitability and cash flows will be more sensitive to natural gas prices than to oil and condensate prices.

Generally, our producing properties in the Gulf of Mexico will have high initial production rates followed by steep declines. As a result, we must continually drill for and develop new oil and gas reserves to replace those being depleted by production. Substantial capital expenditures are required to find and develop these reserves. Our challenge is to find and develop reserves at economic rates and commence production of these reserves as quickly and efficiently as possible.

**Table of Contents**

Deepwater discoveries typically require a longer lead time to bring to productive status. Since 2001, we have made several deepwater discoveries that are in various stages of development. We commenced production at our Green Canyon 178 (Baccarat) project in the third quarter of 2005. However, damage sustained by the host facility during Hurricane Rita caused production to be shut-in, although production recommenced in the first quarter of 2006. We commenced production at our Swordfish project in the fourth quarter of 2005. We currently anticipate commencing production in the second quarter of 2006 at our Pluto, Rigel and Ewing Banks 921 (North Black Widow) projects. However, as described above, Hurricanes Katrina and Rita have delayed start up of these projects from their original anticipated commencement dates. Other uncertainties, including scheduling, weather, and construction lead times, could cause further delays in the start up of any one or all of the projects.

***Oil and Gas Property Costs***

In the nine months ended September 30, 2005, we incurred approximately \$130.4 million in capital expenditures with 70% related to development activities primarily at our Aldwell Unit and for our Viosca Knoll 917 (Swordfish), Mississippi Canyon 718 (Pluto) and Mississippi Canyon 296 (Rigel) offshore projects. We also expended \$10.0 million for the acquisition of oil and gas property interests in the first nine months of 2005, comprised of \$3.5 million for properties located in the West Texas Permian Basin area, \$5.0 million for Atwater Valley 426 (Bass Lite) and \$1.5 million for East Breaks 513/514/558 (LaSalle). We incurred approximately \$23.6 million of exploration capital expenditures in the first nine months of 2005.

During 2004, we incurred approximately \$148.9 million in capital expenditures with 60% related to development activities, 32% related to exploration activities, including the acquisition of leasehold and seismic, and the remainder related to acquisitions and other items (primarily capitalized overhead and interest).

We spent approximately \$88.6 million in development capital expenditures in 2004 primarily on Aldwell Unit development and for Viosca Knoll 917 (Swordfish), Mississippi Canyon 718 (Pluto), and West Cameron 333 (Royal Flush) offshore projects.

All capital expenditures for exploration activities relate to offshore projects, and approximately 30% of exploration capital expended during 2004 was for leasehold, seismic, and geological and geophysical costs. During 2004 we participated in fourteen exploration wells, with seven being successful. We incurred approximately \$47.9 million of exploration capital expenditures in 2004.

We anticipate that, based on our current budget, capital expenditures in 2005 will approximate \$250 million with approximately 48% allocated to development projects, 27% to exploration activities, 21% to acquisitions and the remainder to other items (primarily capitalized overhead and interest). However, the effects of Hurricanes Katrina and Rita may delay some planned operations into 2006.

***Oil and Gas Reserves***

We have maintained our reserve base through exploration and exploitation activities despite selling 79.7 Bcfe of our reserves since the fourth quarter of 2001. Historically, we have not acquired significant reserves through acquisition activities. As of December 31, 2004, Ryder Scott estimated our net proved reserves at approximately 237.5 Bcfe, with a PV10 of approximately \$668 million and a standardized measure of discounted future net cash flows attributable to our estimated proved reserves of approximately \$494.4 million. Please see *Mariner Estimated Proved Reserves* for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows. To generate our net proved reserves as of June 30, 2005, our management reviewed and updated our historical lease operating expenses, updated our transportation and basis differentials, updated NYMEX prices, adjusted for roll-off and production performance since December 31, 2004, added any new proved undeveloped reserves (including those resulting from our Bass Lite project), updated the categorization of our projects as either proved undeveloped, proved developed producing or proved behind pipe, and adjusted capital expenditures and timing of cash outlays. See *Mariner Estimated Proved Reserves* for more information concerning our reserve estimates.

The development drilling at our West Texas Aldwell Unit and Gulf of Mexico deepwater divestitures have significantly changed our reserve profile since 2001. Proved reserves as of December 31, 2004 were

**Table of Contents**

comprised of 48% West Texas Permian Basin, 15% Gulf of Mexico shelf and 37% Gulf of Mexico deepwater compared to 20% West Texas Permian Basin, 15% Gulf of Mexico shelf and 65% Gulf of Mexico deepwater as of December 31, 2001. Proved undeveloped reserves were approximately 54% of total proved reserves as of December 31, 2004. Approximately 39% of proved undeveloped reserves were related to our West Texas Aldwell Unit, where we had 100% development drilling success on 105 wells from 2002 through 2004.

Since December 31, 1997, we have added proved undeveloped reserves attributable to 12 deepwater projects. Of those projects, ten have either been converted to proved developed reserves or sold as indicated in the following table.

<b>Property</b>	<b>Net Proved Undeveloped Reserves (Bcfe)(1)</b>	<b>Year Added</b>	<b>Year Converted to Proved Developed or Sold</b>
Mississippi Canyon 718 (Pluto)(2)	25.1	1998	2000 (100% converted to proved developed)
Ewing Bank 966 (Black Widow)	14.0	1999	2000 (100% converted to proved developed)
Mississippi Canyon 773 (Devils Tower)	28.0	2000	2001 (100% of Mariner's interest sold)
Mississippi Canyon 305 (Aconcagua)	19.2	2000	2001 (100% of Mariner's interest sold)
Green Canyon 472/473 (King Kong)	25.5	2000	2002 (100% converted to proved developed)
Green Canyon 516 (Yosemite)	14.9	2001	2002 (100% converted to proved developed)
East Breaks 579 (Falcon)	66.8	2001	2002 (50% of Mariner's interest sold) 2003 (all of Mariner's remaining interest sold)
Viosca Knoll 917 (Swordfish)	13.4	2001	2005 (100% converted to proved developed)
Green Canyon 178 (Baccarat)	4.0	2004	2005 (100% converted to proved developed)
Mississippi Canyon 296/252 (Rigel)	22.4	2003	2005 (75% converted to proved developed/ 25% remains undeveloped)

- (1) Net proved undeveloped reserves attributable to the project in the year it was first added to our proved reserves.
- (2) This field was shut-in in April 2004 pending the drilling of a new well and installation of an extension to the existing infield flowline and umbilical. As a result, as of December 31, 2004, 9.0 Bcfe of our net proved reserves attributable to this project were classified as proved undeveloped reserves. We expect production from Pluto to recommence in the second quarter of 2006.

The proved undeveloped reserves attributable to the remaining two deepwater projects were added as follows:

<b>Property</b>	<b>Net Proved Undeveloped Reserves (Bcfe)(1)</b>	<b>Year Added</b>	<b>Year Expected to Convert to Proved Developed Status</b>
Green Canyon 646 (Daniel Boone)	16.4	2003	2007

Atwater Valley 380/381/382/425/426 (Bass Lite)

30.7

2005

2007

(1) Net proved undeveloped reserves attributable to the project as of June 30, 2005.

***Oil and Natural Gas Prices and Hedging Activities***

Prices for oil and natural gas can fluctuate widely, thereby affecting the amount of cash flow available for capital expenditures, our ability to borrow and raise additional capital and the amount of oil and natural gas that we can economically produce. Recently, oil and natural gas prices have been at or near historical highs and very volatile as a result of various factors, including weather, industrial demand, war and political instability and uncertainty related to the ability of the energy industry to provide supply to meet future demand.



**Table of Contents**

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and gas and our ability to find, develop and acquire oil and gas reserves that are economically recoverable while controlling and reducing costs. A substantial or extended decline in oil and natural gas prices or poor drilling results could have a material adverse effect on our financial position, results of operations, cash flows, quantities of oil and natural gas reserves that we can economically produce and access to capital.

We enter into hedging arrangements from time to time to reduce our exposure to fluctuations in oil and natural gas prices. Typically, our hedging strategy involves entering into commodity price swap arrangements and costless collars with third parties. Price swap arrangements establish a fixed price and an index-related price for the covered commodity. When the index-related price exceeds the fixed price, we pay the third party the difference, and when the fixed price exceeds the index-related prices, the third party pays us the difference. Costless collars establish fixed cap (maximum) and floor (minimum) prices as well as an index-related price for the covered commodity. When the index-related price exceeds the fixed cap price, we pay the third party the difference, and when the index-related price is less than the fixed floor price, the third party pays us the difference. While our hedging arrangements enable us to achieve a more predictable cash flow, these arrangements also limit the benefits of increased prices. As a result of increased oil and natural gas prices, we incurred cash hedging losses of \$27.7 million in 2004, of which \$7.9 million relates to the hedge liability recorded at the March 2, 2004 merger date. Major challenges related to our hedging activities include a determination of the proper production volumes to hedge and acceptable commodity price levels for each hedge transaction. Our hedging activities may also require that we post cash collateral with our counterparties from time to time to cover credit risk. We had no collateral requirements as of December 31, 2004 or September 30, 2005.

In accordance with purchase price accounting implemented at the time of the merger of our former indirect parent company on March 2, 2004, we recorded the mark-to-market liability of our hedge contracts at such date totaling \$12.4 million as a liability on our balance sheet. As of December 31, 2004, the amount of our mark-to-market hedge liabilities totaled \$22.4 million. See [Liquidity and Capital Resources](#) [Commodity Prices and Related Hedging Activities](#).

For the year ended December 31, 2004, assuming a totally unhedged position, our price sensitivity for 2004 historical net revenues for a 10% change in average oil prices and average gas prices received is approximately \$8.9 million and \$14.5 million, respectively. For the nine months ended September 30, 2005, assuming a totally unhedged position, our price sensitivity for net revenues in the first nine months of 2005 for a 10% change in average oil prices and average gas prices received is approximately \$6.7 million and \$10.5 million, respectively.

***Operating Costs***

We classify our operating costs as lease operating expense, transportation expense, and general and administrative expenses. Lease operating expenses are comprised of those costs and expenses necessary to produce oil and gas after an individual well or field has been completed and prepared for production. These costs include direct costs such as field operations, general maintenance expenses, work-overs, and the costs associated with production handling agreements for most of our deep water fields. Lease operating expenses also include indirect costs such as oil and gas property insurance and overhead allocations in accordance with joint operating agreements. We also include severance, production, and ad valorem taxes as lease operating expenses.

Transportation costs are generally variable costs associated with transportation of product to sales meters from the wellhead or field gathering point. General and administrative include employee compensation costs (including stock compensation expense), the costs of third party consultants and professionals, rent and other costs of leasing and maintaining office space, the costs of maintaining computer hardware and software, and insurance and other items.

**Table of Contents****Critical Accounting Policies and Estimates**

Our discussion and analysis of Mariner's financial condition and results of operations are based upon financial statements that have been prepared in accordance with GAAP in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our significant accounting policies are described in Note 1 to our financial statements. We analyze our estimates, including those related to oil and gas revenues, oil and gas properties, fair value of derivative instruments, income taxes and contingencies and litigation, and base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

***Oil and Gas Properties***

Oil and gas properties are accounted for using the full-cost method of accounting. All direct costs and certain indirect costs associated with the acquisition, exploration and development of oil and gas properties are capitalized. Amortization of oil and gas properties is provided using the unit-of-production method based on estimated proved oil and gas reserves. No gains or losses are recognized upon the sale or disposition of oil and gas properties unless the sale or disposition represents a significant quantity of oil and gas reserves, which would have a significant impact on depreciation, depletion and amortization. The net carrying value of proved oil and gas properties is limited to an estimate of the future net revenues (discounted at 10%) from proved oil and gas reserves based on period-end prices and costs.

The costs of unproved properties are excluded from amortization using the full-cost method of accounting. These costs are assessed quarterly for possible inclusion in the full-cost property pool based on geological and geophysical data. If a reduction in value has occurred, costs being amortized are increased. The majority of the costs relating to our unproved properties will be evaluated over the next three years.

***Proved Reserves***

Our most significant financial estimates are based on estimates of proved natural gas and oil reserves. Estimates of proved reserves are key components of our unevaluated properties, our rate for recording depreciation, depletion and amortization and our full cost ceiling limitation. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future revenues, rates of production and timing of development expenditures, including many factors beyond our control. The estimation process relies on assumptions and interpretations of available geologic, geophysical, engineering and production data, and the accuracy of reserve estimates is a function of the quality and quantity of available data. Our reserves are fully engineered on an annual basis by Ryder Scott, our independent petroleum engineers.

***Compensation Expense***

As a result of the adoption of SFAS Statement No. 123(R), we will record compensation expense for the fair value of restricted stock and stock options that were granted on March 11, 2005 pursuant to our Equity Participation Plan and Stock Incentive Plan and for the fair value of subsequent grants of stock options or restricted stock made pursuant to our Stock Incentive Plan. In general, compensation expense will be determined at the date of grant based on the fair value of the stock or options granted.

The fair value of restricted stock that we granted following the closing of the private equity placement pursuant to our Equity Participation Plan was estimated to be \$31.7 million. The fair value will be amortized to compensation expense over the applicable vesting periods. Stock options and restricted stock granted under our Stock Incentive Plan will also result in recognition of compensation expense in accordance with FASB No. 123(R). For more information concerning our Equity Participation Plan, see Management of Mariner Equity Participation Plan.

**Table of Contents*****Revenue Recognition***

We recognize oil and gas revenue from our interests in producing wells as oil and gas from those wells is produced and sold under the entitlements method. Oil and gas volumes sold are not significantly different from our share of production.

***Income Taxes***

Our taxable income through 2004 has been included in a consolidated U.S. income tax return with our former indirect parent company, Mariner Energy LLC. The intercompany tax allocation policy provides that each member of the consolidated group compute a provision for income taxes on a separate return basis. We record income taxes using an asset and liability approach which results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be recovered. In February 2005, Mariner Energy LLC was merged into us, and we will file our own income tax return following the effective date of that merger.

***Capitalized Interest Costs***

We capitalize interest based on the cost of major development projects which are excluded from current depreciation, depletion, and amortization calculations.

***Accrual for Future Abandonment Costs***

SFAS No. 143, Accounting for Asset Retirement Obligations, addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

***Hedging Program***

In June 1998 the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Certain Hedging Activities. In June 2000 the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS No. 133. SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values.

Mariner utilizes derivative instruments, typically in the form of natural gas and crude oil price swap agreements and costless collar arrangements, in order to manage price risk associated with future crude oil and natural gas production. These agreements are accounted for as cash flow hedges. Gains and losses resulting from these transactions are recorded at fair market value and deferred to the extent such amounts are effective. Such gains or losses are recorded in AOCI as appropriate, until recognized as operating income as the physical production hedged by the contracts is delivered.

The net cash flows related to any recognized gains or losses associated with these hedges are reported as oil and gas revenues and presented in cash flows from operations. If the hedge is terminated prior to expected maturity, gains or losses are deferred and included in income in the same period as the physical production hedged by the contracts is delivered.

The conditions to be met for a derivative instrument to qualify as a cash flow hedge are the following: (i) the item to be hedged exposes Mariner to price risk; (ii) the derivative reduces the risk exposure and is designated as a hedge at the time the derivative contract is entered into; and (iii) at the inception of the hedge

**Table of Contents**

and throughout the hedge period there is a high correlation of changes in the market value of the derivative instrument and the fair value of the underlying item being hedged.

When the designated item associated with a derivative instrument matures, is sold, extinguished or terminated, derivative gains or losses are recognized as part of the gain or loss on sale or settlement of the underlying item. When a derivative instrument is associated with an anticipated transaction that is no longer expected to occur or if correlation no longer exists, the gain or loss on the derivative is recognized in income to the extent the future results have not been offset by the effects of price or interest rate changes on the hedged item since the inception of the hedge.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Results of Operations**

For certain information with respect to our oil and natural gas production, average sales price received and expenses per unit of production for the three years ended December 31, 2004, see Mariner Production.

***Nine Months Ended September 30, 2005 compared to Nine Months Ended September 30, 2004*****Operating and Financial Results for the Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004**

	Non-GAAP Combined		Post-Merger	Pre-Merger
	Nine Months Ended		Period from	Period from
	September 30,		March 3,	January 1,
			2004	2004
			through	through
Summary Operating Information:	2005	2004	September 30,	March 2,
			2004	2004

(In thousands, except average sales price)

**Net production:**

Oil (MBbls)	1,336	1,748	756	413
Natural gas (MMcf)	14,508	17,959	8,331	4,233
Total (Mmcfe)	22,521	28,444	12,865	6,713
Average daily production (Mmcfe/d)	82	104	105	112

**Hedging activities:**

Oil revenues (loss)	\$ (13,421)	\$ (6,874)	\$ (1,721)	\$ (686)
Gas revenues (loss)	(9,979)	(1,010)	(2,378)	1,431
Total hedging revenues (loss)	\$ (23,400)	\$ (7,884)	\$ (4,099)	\$ 745

**Average Sales Prices:**

Oil (per Bbl) realized(1)	\$ 40.12	\$ 32.78	\$ 33.05	\$ 30.75
Oil (per Bbl) unhedged	50.17	36.71	35.33	32.41
Natural gas (per Mcf) realized(1)	6.54	5.85	5.68	6.39
Natural gas (per Mcf) unhedged	7.23	5.90	5.97	6.05
	6.59	5.71	5.62	5.92

Total natural gas equivalent (\$/Mcf) realized(1)				
Total natural gas equivalent (\$/Mcf) unhedged	7.63	5.98	5.94	5.81

**Table of Contents**

	Non-GAAP Combined		Post-Merger	Pre-Merger
	Nine Months Ended		Period from	Period from
	September 30,		March 3, 2004 through September 30, 2004	January 1, 2004 through March 2, 2004
Summary Operating Information:	2005	2004		

(In thousands, except average sales price)

<b>Oil and gas revenues:</b>				
Oil sales	\$ 53,579	\$ 57,285	\$ 24,985	\$ 12,709
Gas sales	94,913	105,005	47,339	27,055
Total oil and gas revenues	\$ 148,492	\$ 162,290	\$ 72,324	\$ 39,764
Other revenues	2,753			
Lease operating expenses	20,170	19,194	9,702	4,121
Transportation expenses	1,697	4,814	2,421	1,070
Depreciation, depletion and amortization	43,457	48,094	21,182	10,630
General and administrative expenses	26,726	7,305	4,308	1,131
Net interest expense (income)	4,720	4,127	2,614	(86)
Income before taxes	53,977	77,799	32,097	22,898
Provision for income taxes	18,414	27,293	10,724	8,072

(1) Average realized prices include the effects of hedges.

*Net production* during the nine months ended September 30, 2005 decreased approximately 21% to 22.5 Bcfe from 28.4 Bcfe in the same period of 2004 primarily due to decreased Gulf of Mexico production, partially offset by increased onshore production. Mariner's production was negatively impacted during the third quarter of 2005 due to hurricane activity, primarily Katrina and Rita. Production shut-in and deferred because of the hurricanes' impact totaled approximately 1.3 Bcfe during the third quarter of 2005. As of September 30, 2005, approximately 7 MMcfe per day of production remained shut-in awaiting repairs, primarily associated with our Baccarat property (although, production therefrom recommenced in January 2006). Additionally, production that was anticipated to commence in the third quarter of 2005 at our Swordfish, Pluto, and Rigel development projects has been delayed until the fourth quarter of 2005 for Swordfish, and into 2006 at Pluto and Rigel, awaiting repairs to host facilities.

Increased development drilling at our Aldwell unit in West Texas contributed to a 61% increase in onshore production to an average of approximately 17.1 Mmcfe per day in the first nine months of 2005 from an average of approximately 10.5 Mmcfe per day in the first nine months of 2004.

In the deepwater Gulf of Mexico, production decreased approximately 30% to an average of approximately 33 Mmcfe per day in the first nine months of 2005 compared to an average of approximately 47 Mmcfe per day in the first nine months of 2004. The decrease was largely due to reduced production at our Black Widow, Yosemite and Pluto fields. Pluto was shut-in in April 2004 pending drilling of the new Mississippi Canyon 674 #3 well and installation of an extension to the existing subsea facilities. Production at Black Widow and Yosemite are undergoing expected declines.

In the Gulf of Mexico shelf, production decreased by approximately 30% to an average of approximately 32 Mmcfe per day in the first nine months of 2005 from an average of approximately 46 Mmcfe per day in the first nine months of 2004. About 6.2 Mmcfe per day of the decrease is attributable to our Ochre field which remains shut-in due to the effects of Hurricane Ivan in September 2004. Production from three new shelf discoveries (Green Pepper, Royal Flush, and Dice) and production from the 2004 acquisition of interests in five offshore fields offset normal declines at our other Gulf of Mexico shelf fields.

*Hedging activities* in the first nine months of 2005 decreased our average realized natural gas price received by \$0.69 per Mcf and revenues by \$10.0 million, compared with a decrease of \$0.05 per Mcf and revenues of \$1.0 million for the same period in 2004. Our hedging activities with respect to crude oil during the first nine months of 2005 decreased the average sales price received by \$10.05 per barrel and revenues by

**Table of Contents**

\$13.4 million compared with a decrease of \$3.93 per barrel and revenues of \$6.9 million for the same period in 2004.

*Oil and gas revenues* decreased 6% to \$148.5 million in the first nine months of 2005 when compared to first nine months 2004 oil and gas revenues of \$162.3 million, due to the aforementioned 21% decrease in production, partially offset by a 16% increase in realized prices (including the effects of hedging) to \$6.59 per Mcfe in the first nine months of 2005 from \$5.71 per Mcfe in the same period in 2004.

*Other revenues* of \$2.7 million in the first nine months of 2005 represent an indemnity payment received from our former stockholder related to the merger of \$1.9 million and \$0.8 million generated by our West Texas Aldwell unit gathering system.

*Lease operating expenses* increased 5% to \$20.2 million in the first nine months of 2005 from \$19.2 million in the first nine months of 2004. The increased costs were primarily attributable to the addition of new producing wells at our Aldwell Unit offset by reduced costs on our Black Widow, King Kong/Yosemite, and Pluto deep water fields. On a per unit basis, lease operating expenses were \$0.90 per Mcfe in the first nine months of 2005 compared to \$0.67 per Mcfe in the first nine months of 2004. The increased per unit costs also reflect lower production rates in the 2005 period, including hurricane-related disruptions.

*Transportation expenses* were \$1.7 million or \$0.08 per Mcfe in the first nine months of 2005, compared to \$4.8 million or \$0.17 per Mcfe in the first nine months of 2004. The reduction is primarily attributable to our deepwater fields and includes reductions caused by the filing of new and higher transportation allowances with the MMS on two of our deepwater fields for purpose of royalty calculation.

*Depreciation, depletion, and amortization expense* decreased 10% to \$43.5 million during the first nine months of 2005 from \$48.1 million for the first nine months of 2004 as a result of decreased production of 5.9 Bcfe in the first nine months of 2005 compared to the first nine months of 2004, partially offset by an increase in the unit-of-production depreciation, depletion and amortization rate to \$1.93 per Mcfe for the first nine months of 2005 from \$1.69 per Mcfe for the same period in 2004. The per unit increase was primarily the result of an increase in future development costs on our deepwater development fields.

*General and administrative expenses ( G&A )*, which are net of \$3.1 million and \$2.2 million of overhead reimbursements billed or received from other working interest owners in the first nine months of 2005 and 2004, respectively, increased 266% to \$26.7 million during the first nine months of 2005 compared to \$7.3 million in the first nine months of 2004. The increase was primarily due to recognizing \$17.6 million in stock compensation expense related to restricted stock and options granted in the first nine months of 2005. We also paid \$2.3 million to our former stockholders to terminate a services agreement in the first nine months of 2005, compared to \$1.0 million under the same agreement in the first nine months of 2004. In addition, G&A expenses increased by \$1.8 million due to a reduction in the amount of G&A capitalized in the first nine months of 2005 compared to the first nine months of 2004.

*Net interest expense* for the first nine months of 2005 increased 14% to \$4.7 million from \$4.1 million in the first nine months of 2004, primarily due to lower average debt levels in the first nine months of 2004 compared to the first nine months of 2005. In connection with the Merger on March 2, 2004, Mariner incurred \$135 million in new bank debt and issued a \$10 million promissory note to JEDI. For comparison purposes, approximately seven months of interest related to such borrowings is reflected in the first nine months of 2004 compared to nine months of interest in 2005.

*Income before income taxes* decreased to \$54.0 million for the first nine months of 2005 compared to \$77.8 million for the same period in 2004, attributable primarily to the decrease in oil and gas revenues resulting from the decreased production and increased G&A expenses, both as noted above. Offsetting these factors were the receipt of other income related to the indemnity payment and lower DD&A and transportation expenses.



**Table of Contents**

*Provision for income taxes* decreased to \$18.4 million for the first nine months of 2005 from \$27.3 million for the first nine months of 2004 as a result of decreased operating income for the nine months ended September 30, 2005 compared to the prior period.

**Year Ended December 31, 2004 compared to Year Ended December 31, 2003****Operating and Financial Results for the Year Ended December 31, 2004 Compared to the Year Ended December 31, 2003**

	Non-GAAP Combined		Post-Merger	Pre-Merger
	Year Ended December 31,		Period from March 3, 2004 through December 31, 2004	Period from January 1, 2004 through March 2, 2004
Summary Operating Information:	2003	2004		
(In thousands, except average sales price)				
<b>Net production:</b>				
Oil (MBbls)	1,600	2,298	1,885	413
Natural gas (MMcf)	23,772	23,782	19,549	4,233
Total (Mmcfe)	33,374	37,569	30,856	6,713
Average daily production (Mmcfe/d)	91	103	101	112
<b>Hedging activities:</b>				
Oil revenues (loss)	\$ (4,969)	\$ (12,299)	\$ (11,613)	\$ (686)
Gas revenues (loss)	(24,494)	(7,498)	(8,929)	1,431
Total hedging revenues (loss)	\$ (29,463)	\$ (19,797)	\$ (20,542)	\$ 745
<b>Average Sales Prices:</b>				
Oil (per Bbl) realized(1)	\$ 23.74	\$ 33.17	\$ 33.69	\$ 30.75
Oil (per Bbl) unhedged	26.85	38.52	39.85	32.41
Natural gas (per Mcf) realized(1)	4.40	5.80	5.67	6.39
Natural gas (per Mcf) unhedged	5.43	6.12	6.13	6.05
Total natural gas equivalent (\$/Mcf) realized(1)	4.27	5.70	5.65	5.92
Total natural gas equivalent (\$/Mcf) unhedged	5.15	6.23	6.32	5.81
<b>Oil and gas revenues:</b>				
Oil sales	\$ 37,992	\$ 76,207	\$ 63,498	\$ 12,709
Gas sales	104,551	137,980	110,925	27,055
Total oil and gas revenues	\$ 142,543	\$ 214,187	\$ 174,423	\$ 39,764
Lease operating expenses	24,719	25,484	21,363	4,121
Transportation expenses	6,252	3,029	1,959	1,070
Depreciation, depletion and amortization	48,339	64,911	54,281	10,630
General and administrative expenses	8,098	8,772	7,641	1,131
		957	957	

Impairment of production equipment held for use				
Net interest expense (income)	6,225	5,734	5,820	(86)
Income before taxes and change in accounting method	45,688	105,300	82,402	22,898
Provision for income taxes	9,387	36,855	28,783	8,072

(1) Average realized prices include the effects of hedges.

**Table of Contents**

*Net production* during 2004 increased to 37.6 Bcfe from 33.4 Bcfe during 2003 primarily due to the commencement of production on our Roaring Fork and Ochre projects, offset by normal production declines on existing fields.

*Hedging activities* in 2004 decreased our average realized natural gas price received by \$0.32 per Mcf and revenues by \$7.5 million, compared with a decrease of \$1.03 per Mcf and revenues of \$24.5 million for 2003. Our hedging activities with respect to crude oil during 2004 decreased the average sales price received by \$5.35 per bbl and revenues by \$12.3 million compared with a decrease of \$3.11 per bbl and revenues of \$5.0 million for 2003.

*Oil and gas revenues* increased 50% to \$214.2 million during 2004 when compared to 2003 oil and gas revenues of \$142.5 million, due to a 13% increase in production and a 33% increase in realized prices (including the effects of hedging) to \$5.70 per Mcfe in 2004 from \$4.27 per Mcfe in 2003.

*Lease operating expenses* increased 3% to \$25.5 million in 2004 from \$24.7 million in 2003 due to increased activity in our West Texas Aldwell project, partially offset by lower compression costs on our King Kong and Yosemite projects and the shut-in of our Pluto project for a large portion of 2004 pending the drilling and completion of the Mississippi Canyon 674 No. 3 well, which has been drilled and awaits installation of flowlines and related facilities.

*Transportation expenses* were \$3.0 million for 2004, compared to \$6.3 million for 2003. In the fourth quarter of 2004, we filed new transportation allowances with the MMS for purpose of royalty calculation. This resulted in a \$3.2 million decrease in transportation expense in 2004 compared to 2003. In addition, transportation expense from our new Roaring Fork field was offset by declines from our existing fields.

*Depreciation, depletion, and amortization expense* increased 34% to \$64.9 million during 2004 from \$48.3 million for 2003 as a result of an increase in the unit-of-production depreciation, depletion and amortization rate to \$1.73 per Mcfe from \$1.45 per Mcfe for the comparable period and a production increase of 4.2 Bcfe in 2004 compared to 2003. The per unit increase is primarily attributable to non-cash purchase accounting adjustments resulting from the merger.

*G&A*, which is net of \$4.4 million of overhead reimbursements received from other working interest owners, increased 8% to \$8.8 million during 2004 compared to \$8.1 million in 2003 primarily due to increased compensation costs paid in connection with the merger and payments made pursuant to services contracts with affiliates of our sole stockholder, offset by increased overhead recoveries from our partners and amounts capitalized.

*Impairment of production equipment held for use* reflects the reduction of the carrying cost of our inventory as of December 31, 2004 by \$1.0 million to account for a reduction in estimated value primarily related to subsea trees held in inventory.

*Net interest expense* for 2004 decreased 8% to \$5.7 million from \$6.2 million for 2003, primarily due to the repayment of our senior subordinated notes in August 2003, replaced by lower-cost bank debt in March 2004.

*Income before income taxes and change in accounting method* increased to \$105.3 million for 2004 compared to \$45.7 million in 2003, attributable primarily to the increase in oil and gas revenues resulting from the increased production and realized prices noted above.

*Provision for income taxes* increased to \$36.9 million for 2004 from \$9.4 million for 2003 as a result of increased current year operating income.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

*Net production* decreased during 2003 to 33.4 Bcfe from 39.8 Bcfe in 2002. Production from new drilling in our onshore Aldwell project and offshore Roaring Fork and Vermilion 143 projects was offset by production declines in other fields and loss of production from our offshore Pluto project during the first seven months of 2003 as a result of a flowline mechanical problem that required extended maintenance.

**Table of Contents**

*Hedging activities* in 2003 decreased our average realized natural gas price received by \$1.03 per Mcf and revenues by \$24.5 million, compared with an increase of \$0.68 per Mcf and revenues of \$20.3 million in 2002. Our hedging activities with respect to crude oil during 2003 decreased the average sales price received by \$3.11 per bbl and revenues by \$5.0 million compared with an increase of \$1.25 per bbl and revenues of \$2.1 million in 2002.

*Oil and gas revenues* decreased 10% to \$142.5 million in 2003 from \$158.2 million in 2002 (including the effects of hedge gains and losses), due to a 16% decrease in production offset by an 8% increase in average realized prices to \$4.27 per Mcfe in 2003 from \$3.97 per Mcfe in 2002 including the effects of hedging gains and losses.

*Lease operating expenses* decreased 5% to \$24.7 million in 2003 from \$26.1 million in 2002 due to the reduced chemical requirements at our King Kong and Yosemite projects offset by higher chemical costs at our Pluto field.

*Transportation expenses* decreased 40% to \$6.3 million for 2003 from \$10.5 million for 2002. The decrease was primarily attributable to lower minimum fees required under the transportation agreement for our Pluto project.

*Depreciation, depletion, and amortization expense* decreased 32% to \$48.3 million for 2003 from \$70.8 million for 2002 as a result of the decrease in the unit-of-production depreciation, depletion and amortization rate to \$1.45 per Mcfe from \$1.78 per Mcfe and 6.4 Bcfe of less production in 2003 compared to 2002. The primary driver behind the reduced DD&A rate per Mcfe was the reduction of our full cost pool and concurrent reduction of proved reserves by the proceeds from the sale of an interest in the Falcon and Harrier properties in 2003.

*Early derivative settlements of non hedge designated instruments* resulted in a loss of \$3.2 million in 2003. There were no similar transactions in 2002.

*G&A*, which is net of \$1.8 million of overhead reimbursements received from other working interest owners, increased 5% to \$8.1 million for 2003 from \$7.7 million for 2002. The increase was comprised of an 11% reduction in gross G&A (before capitalized items and overhead recoveries) driven primarily by reduced professional service costs and office rent, offset by higher employee compensation costs, which included retention payments. The reduction in gross G&A was offset by reduced overhead recoveries and capitalized items compared to 2002.

*Net interest expense* for 2003 decreased 37% to \$6.2 million from \$9.9 million for 2002, primarily due to mid-year retirement of our senior subordinated notes.

*Income before income taxes and change in accounting method* increased to a net income of \$45.7 million for 2003 from \$30.0 million in 2002, primarily as a result of 30% higher operating income (primarily driven by lower DD&A partially offset by lower oil and gas revenues) all as described more fully above.

*Provision for income taxes* increased to \$9.4 million in 2003 as a result of Mariner utilizing all of its net operating losses. The provision for income taxes in 2002 was \$0.

**Liquidity and Capital Resources*****Cash Flows and Liquidity***

Working capital at September 30, 2005 was negative \$30.2 million, excluding current derivative liabilities and related tax effects. Accounts payable and accrued liabilities at September 30, 2005 increased by approximately 23% over levels at December 31, 2004 primarily due to increased current obligations for our Swordfish and Pluto development projects at quarter end. As of December 31, 2004, we had negative working capital of approximately \$18.7 million compared to positive working capital of \$38.3 million at December 31, 2003, in each case excluding current derivative liabilities and restricted cash. The reduction in working capital from the prior year is primarily the result of a change in the manner Mariner utilizes excess cash. At year-end 2003, Mariner operated with no debt and consequently accumulated cash (approximately \$60 million at year-

**Table of Contents**

end 2003) generated by operations and asset sales in order to fund future obligations and business activities. In March 2004, Mariner entered into a revolving credit facility, and since then has utilized excess cash to pay down outstanding advances to maintain debt levels as low as possible. In addition, our accounts payable and accrued liabilities at December 31, 2004 increased by about 32% over levels at December 31, 2003 primarily as a result of funding for development of our deepwater projects in progress at year end.

Our 2004 capital expenditures were \$148.9 million. Approximately 60% of our capital expenditures were incurred for development projects, 32% for exploration activities and the remainder for acquisitions and other items (primarily capitalized overhead and interest).

We anticipate that our capital expenditures for 2005 will approximate \$250 million with approximately 48% allocated to development projects, 27% to exploration activities, 21% to acquisitions and the remainder to other items (primarily capitalized overhead and interest). This is an increase of approximately \$98 million over our original 2005 budget. The increase is primarily driven by acquisitions of interests in properties, by new drilling projects at LaSalle/NW Nansen, and by the cost of remediating a flow line obstruction at our Pluto project.

With the anticipated increase in capital expenditures and reduced production, partially from the impact of hurricanes, cash flows generated by operations for 2005 will not be sufficient to fund our 2005 capital expenditures. Any requirements for funding that exceed our cash flows will be funded through additional borrowings under our existing revolving credit facility. We currently have a borrowing base of \$185 million with approximately \$75 million drawn as of September 30, 2005. Because of increased capital expenditures in the fourth quarter of 2005 (including about \$40 million for acquisitions) and reduced cash flows, borrowings under the revolving credit facility increased to approximately \$152.0 million by year-end 2005.

However, the timing of expenditures (especially regarding deepwater projects) is unpredictable. Also, our cash flows are heavily dependent on the oil and natural gas commodity markets and our ability to hedge oil and natural gas prices is limited by our revolving credit facility to no more than 80% of our expected production from proved developed producing reserves. If either oil or natural gas commodity prices decrease from their current levels, our ability to finance our planned capital expenditures could be affected negatively. Furthermore, amounts available for borrowing under our revolving credit facility are largely dependent on our level of proved reserves and current oil and natural gas prices. If either our proved reserves or commodity prices decrease, amounts available to us to borrow under our revolving credit facility could be negatively affected. If our cash flows are less than anticipated or amounts available for borrowing under our revolving credit facility are reduced, we may be forced to defer planned capital expenditures.

In addition, our future oil and natural gas production depends on our success in finding or acquiring additional reserves. If we fail to replace reserves through drilling or acquisitions, our cash flows will be affected adversely. In general, production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our total proved reserves decline as reserves are produced unless we conduct other successful exploration and development activities or acquire properties containing proved reserves, or both. Our ability to make the necessary capital investment to maintain or expand our asset base of oil and natural gas reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. We may not be successful in exploring for, developing or acquiring additional reserves.

Our existing proved reserves are comprised of West Texas and Gulf of Mexico properties. The West Texas properties are relatively long-life in nature characterized by relatively low decline rates (lower productive rates) while the Gulf of Mexico properties are shorter-life in nature characterized by relatively high decline rates (higher productive rates). For the nine months ended September 30, 2005, our Gulf of Mexico properties comprised about 79% of our total production. We plan to maintain an active drilling program on our onshore properties with the intention of maintaining or increasing production in those areas. Although production from our existing offshore wells will decline more rapidly over time than our onshore wells, the percentage of production attributable to our offshore wells is expected to increase in the coming years as more of our undeveloped deep water projects commence production. While we expect this trend to continue for the near future, oil and gas production (especially for our offshore properties) can be heavily affected by reservoir



**Table of Contents**

characteristics and unforeseen events (such as hurricanes and other casualties), so we can not predict with any certainty the timing of declines in production or the commencement of production from new projects.

In conjunction with the March 2004 merger, we established a new credit facility maturing on March 2, 2007. The new credit facility was fully drawn at inception for \$135 million. See Credit Facility. In addition, we issued a \$10 million promissory note to JEDI as part of the merger consideration. See Mariner Enron Related Matters and JEDI Term Promissory Note. This note matures in March 2006. Net proceeds from a private equity placement were approximately \$45 million, of which \$6 million was used to pay down the JEDI promissory note with the remainder used to pay down the credit facility.

For the year ended December 31, 2004 and the nine months ended September 30, 2005, our interest rate sensitivity for a change in interest rates of  $1/8$  percent on average outstanding debt under our credit facility is approximately \$0.2 million and \$0.1 million, respectively. The LIBOR rate on which our bank borrowings are primarily based was 4.19% as of November 23, 2005.

We had a net cash outflow of \$57.6 million in 2004, compared to a net cash inflow of \$41.8 million in 2003 and a net cash inflow of \$6.5 million in 2002. A discussion of the major components of cash flows for these periods follows.

	<b>Pre-Merger</b>				
<b>Combined</b>	<b>Post-Merger</b>			<b>Year Ended</b>	
<b>Year Ended</b>	<b>Period from</b>	<b>Period from</b>	<b>December 31,</b>		
<b>December 31,</b>	<b>March 3,</b>	<b>January 1,</b>	<b>2003</b>		
<b>2004</b>	<b>2004 to</b>	<b>2004 to</b>	<b>2002</b>		
<b>December 31,</b>	<b>December 31,</b>	<b>March 2,</b>	<b>2004</b>		
<b>2004</b>	<b>2004</b>	<b>2004</b>	<b>2004</b>		
<b>(Unaudited)</b>					
<b>(In millions)</b>					
Cash flows provided by operating activities	\$ 156.2	\$ 135.9	\$ 20.3	\$ 103.5	\$ 60.3

Cash flows provided by operating activities in 2004 increased by \$52.7 million compared to 2003 primarily due to improved operating results and net income driven by increased production volumes and higher net oil and natural gas prices realized by Mariner.

	<b>Pre-Merger</b>				
<b>Combined</b>	<b>Post-Merger</b>			<b>Year Ended</b>	
<b>Year Ended</b>	<b>Period from</b>	<b>Period from</b>	<b>December 31,</b>		
<b>December 31,</b>	<b>March 3,</b>	<b>January 1,</b>	<b>2003</b>		
<b>2004</b>	<b>2004 to</b>	<b>2004 to</b>	<b>2002</b>		
<b>December 31,</b>	<b>December 31,</b>	<b>March 2,</b>	<b>2004</b>		
<b>2004</b>	<b>2004</b>	<b>2004</b>	<b>2004</b>		
<b>(Unaudited)</b>					
<b>(In millions)</b>					
Cash flows used in (provided by) investing activities	\$ 148.9	\$ 133.6	\$ 15.3	\$ (38.3)	\$ 53.8

Cash flows used in investing activities in 2004 increased by \$187.2 million compared to 2003 due to increased capital expenditures in 2004 and the sale of assets in prior years.

	<b>Pre-Merger</b>			
<b>Combined</b>	<b>Post-Merger</b>			
<b>Year Ended</b>	<b>Period from</b>	<b>Period from</b>	<b>Year Ended</b>	
<b>December 31,</b>	<b>March 3,</b>	<b>January 1,</b>	<b>December 31,</b>	
<b>2004</b>	<b>2004 to</b>	<b>2004 to</b>	<b>2003</b>	<b>2002</b>
<b>December 31,</b>	<b>December 31,</b>	<b>March 2,</b>		
<b>2004</b>	<b>2004</b>	<b>2004</b>		
<b>(Unaudited)</b>				
	<b>(In millions)</b>			
Cash flows used in financing activities	\$ (64.9)	\$ (64.9)	\$ (100.0)	

Cash flows used in financing activities in 2004 decreased by \$35.1 million compared to 2003 as a result of a \$166 million dividend to our former indirect parent used to help repay a term loan to an affiliate of Enron Corp. and the placement of our revolving credit facility.



**Table of Contents****Commodity Prices and Related Hedging Activities**

The energy markets have historically been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. In an effort to reduce the effects of the volatility of the price of oil and natural gas on our operations, management has adopted a policy of hedging oil and natural gas prices from time to time primarily through the use of commodity price swap agreements and costless collar arrangements. While the use of these hedging arrangements limits the downside risk of adverse price movements, it also limits future gains from favorable movements.

As of September 30, 2005, Mariner had the following hedge contracts outstanding:

Fixed Price Swaps		Quantity	Fixed Price	September 30, 2005
				Fair Value Gain/(Loss)
(In millions)				
<b>Crude Oil (Bbls)</b>				
October 1	December 31, 2005	138,000	\$ 25.22	\$ (5.7)
January 1	December 31, 2006	140,160	29.56	(5.2)
<b>Natural Gas (MMBtus)</b>				
October 1	December 31, 2005	1,352,400	5.00	(12.3)
January 1	December 31, 2006	1,827,547	5.53	(13.6)
Total				\$ (36.8)

Costless Collars		Quantity	Floor	Cap	September 30, 2005
					Fair Value Gain/(Loss)
(In millions)					
<b>Crude Oil (Bbls)</b>					
October 1	December 31, 2005	57,960	\$ 35.60	\$ 44.77	\$ (1.2)
January 1	December 31, 2006	251,850	32.65	41.52	(6.2)
January 1	December 31, 2007	202,575	31.27	39.83	(4.8)
<b>Natural Gas (MMBtus)</b>					
October 1	December 31, 2005	2,189,600	6.01	8.02	(12.3)
January 1	December 31, 2006	7,347,450	5.78	7.85	(29.1)
January 1	December 31, 2007	5,310,750	5.49	7.22	(14.7)
Total					\$ (68.3)

As of December 31, 2004, Mariner had the following hedge contracts outstanding:

December 31, 2004
Fair Value
Fixed

Fixed Price Swaps		Quantity	Price	Gain/(Loss)
(In millions)				
<b>Crude Oil (Bbls)</b>				
January 1	December 31, 2005	606,000	\$ 26.15	\$ (10.0)
January 1	December 31, 2006	140,160	29.56	(1.5)
<b>Natural Gas (MMBtus)</b>				
January 1	December 31, 2005	8,670,159	5.41	(7.0)
January 1	December 31, 2006	1,827,547	5.53	(1.9)
Total				\$ (20.4)

**Table of Contents**

Costless Collars		Quantity	Floor	Cap	December 31, 2004
					Fair Value Gain/(Loss)
(In millions)					
<b>Crude Oil (Bbls)</b>					
January 1	December 31, 2005	229,950	\$ 35.60	\$ 44.77	\$ (0.4)
January 1	December 31, 2006	251,850	32.65	41.52	(0.7)
January 1	December 31, 2007	202,575	31.27	39.83	(0.6)
<b>Natural Gas (MMBtus)</b>					
January 1	December 31, 2005	2,847,000	5.73	7.80	0.4
January 1	December 31, 2006	3,514,950	5.37	7.35	(0.3)
January 1	December 31, 2007	1,806,750	5.08	6.26	(0.4)
<b>Total</b>					<b>\$ (2.0)</b>

We have reviewed the financial strength of our hedge counterparties and believe our credit risk to be minimal. Under the terms of some of these transactions, from time to time we may be required to provide security in the form of cash or letters of credit to our counterparties. As of December 31, 2004 and September 30, 2005, we had no deposits for collateral.

The following table sets forth the results of third party hedging transactions during the periods indicated:

	Year Ended December 31,		
	2004	2003	2002
(Dollars in millions)			
<b>Natural Gas</b>			
Quantity settled (MMBtus)	18,823,063	25,520,000	
Increase (Decrease) in Natural Gas Sales	\$ (10.8)	\$ (27.1)	
<b>Crude Oil</b>			
Quantity settled (Mbbls)	1,554	730	353
Increase (Decrease) in Crude Oil Sales	\$ (16.9)	\$ (5.0)	\$ (0.8)

In accordance with purchase price accounting implemented at the time of the merger of our former indirect parent on March 2, 2004, we recorded the mark-to-market liability of our hedge contracts at such date totaling \$12.4 million as a liability on our balance sheet. See Critical Accounting Policies and Estimates Hedging Program. For the year ended December 31, 2004, \$7.9 million of the \$27.7 million of cash hedge losses relate to the liability recorded at the time of the merger.

**Interest Rate Hedges**

Borrowings under our revolving credit the facility, discussed below, mature on March 2, 2007, and bear interest at either a LIBOR-based rate or a prime-based rate, at our option, plus a specified margin. Both options expose us to risk of earnings loss due to changes in market rates. We have not entered into interest rate hedges that would mitigate such risk.

**Credit Facility**

We have a revolving credit facility which provides up to \$200 million of revolving borrowing capacity, subject to a borrowing base limitation. We currently expect to replace this credit facility when the merger is completed. See Financing Arrangements Relating to the Spin-Off and the Merger beginning on page 93. The borrowing capacity is currently subject to a borrowing base of \$185 million. The borrowing base is subject to redetermination by the lenders quarterly; provided however, if at least \$10 million of unused availability exists, the borrowing base will be redetermined semi-annually. The borrowing base is based upon the evaluation by the lenders of our oil and gas reserves and other factors. Any increase in the borrowing base requires the consent of all lenders.

**Table of Contents**

Borrowings under the facility bear interest, at our option, at a rate of (i) LIBOR plus 2.00% to 2.75% depending upon utilization, or (ii) the greater of (a) the Federal Funds Rate plus 0.50% or (b) the Reference Rate, plus 0.00% to 0.50% depending upon utilization.

Substantially all of our assets, other than the assets securing the term promissory note issued to JEDI, are pledged to secure the credit facility and obligations under hedging arrangements with members of our bank group. In addition, both of our subsidiaries, Mariner Energy Texas LP and Mariner LP LLC, have guaranteed our obligations under the credit facility. We must pay a commitment fee of 0.25% to 0.50% per year on the unused availability under the credit facility, depending upon utilization.

The credit facility contains various restrictive covenants and other usual and customary terms and conditions of a revolving credit facility, including limitations on the payment of cash dividends and other restricted payments, limitations on the incurrence of additional debt, prohibitions on the sale of assets, and requirements for hedging a portion of our oil and natural gas production. Financial covenants require us to, among other things:

maintain a ratio, as of the last day of each fiscal quarter, of (a) current assets (excluding cash posted as collateral to secure hedging obligations) plus unused availability under the credit facility to (b) current liabilities (excluding the current portion of debt and current portion of hedge liabilities) of not less than 1.00 to 1.00;

maintain a ratio, as of the last day of each fiscal quarter, of (a) EBITDA (earnings before interest, taxes, depreciation, amortization and depletion) to (b) the sum of interest expense and maintenance capital expenditures for such period and 20% (on an annualized basis) of outstanding advances, of not less than 1.20 to 1.00; and

maintain a ratio, as of the last day of each fiscal quarter, of (a) total debt to (b) EBITDA of not greater than 1.75 to 1.00 prior to the issuance of bonds as described in the credit agreement and 3.00 to 1.00 thereafter.

The credit facility also contains customary events of default, including the occurrence of a change of control or default by us in the payment or performance of any other indebtedness equal to or exceeding \$2.0 million.

As of September 30, 2005, \$75.0 million was outstanding under the credit facility, and the weighted average interest rate was 5.84%. This debt matures on March 2, 2007. Because of increased capital expenditures in the fourth quarter of 2005 (including about \$40 million for acquisitions) and reduced cash flows, borrowings under the revolving credit facility increased to approximately \$152.0 million by year-end 2005.

***JEDI Term Promissory Note***

As part of the merger consideration payable to JEDI, we issued a term promissory note to JEDI in the amount of \$10 million. The note matures on March 2, 2006, and bears interest, payable in kind at our option, at a rate of 10% per annum until March 2, 2005, and 12% per annum thereafter unless paid in cash in which event the rate remains 10% per annum. We have chosen to pay the interest in cash rather than in kind. The JEDI note is secured by a lien on three of our properties with no proved reserves located in the Gulf of Mexico. We can offset against the note the amount of certain claims for indemnification that can be asserted against JEDI under the terms of the merger agreement. The JEDI term promissory note contains customary events of default, including an event of default triggered by the occurrence of an event of default under our credit facility. We used \$6 million of the proceeds from the recent private equity placement to repay a portion of the JEDI note. As of September 30, 2005, \$4 million was still outstanding under the JEDI note.

**Table of Contents****Capital Expenditures and Capital Resources**

The following table presents major components of our capital expenditures for each of the three years in the period ended December 31, 2004.

	Combined	Post-Merger		Pre-Merger	
		Year Ended	Period from	Period from	Year Ended
	December 31,	March 3,	January 1,	2003	2002
	2004	2004 to	2004		
		December 31,	to		
		2004	March 2,		
			2004		
	(Unaudited)				
		(In millions)			
Capital expenditures:					
Leasehold acquisition	\$ 4.8	\$ 4.4	\$ 0.4	\$ 4.8	\$ 14.9
Oil and natural gas exploration	43.0	35.9	7.1	26.8	25.5
Oil and natural gas development	88.6	82.0	6.6	44.3	55.3
Proceeds from property conveyances				(121.6)	(52.3)
Acquisitions	4.9	4.9			
Other items (primarily capitalized overhead and interest)	7.6	6.4	1.2	7.4	10.4
Total capital expenditures, net of proceeds from property conveyances	\$ 148.9	\$ 133.6	\$ 15.3	\$ (38.3)	\$ 53.8

Our net capital expenditures for 2004 increased by \$187.2 million, as compared to 2003, as a result of increased exploration and development expenditures with no offsetting proceeds from property conveyances in 2004.

Our net capital expenditures for 2003 decreased \$92.1 million as compared to 2002 as a result of higher proceeds from property conveyances and overall lower capital expenditures as result of our shift to a more balanced portfolio among Gulf of Mexico deepwater and shelf and onshore properties.

We had no long-term debt outstanding as of December 31, 2003. As of December 31, 2004, long-term debt was \$115 million. See Credit Facility.

**Contractual Commitments**

We have numerous contractual commitments in the ordinary course of business, debt service requirements and operating lease commitments. The following table summarizes these commitments at December 31, 2004:

Less

	<b>Total</b>	<b>Than One Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
	<b>(In millions)</b>				
Long-term debt obligations(1)	\$ 115.0	\$	\$ 115.0	\$	\$
Interest obligations(2)	0.6	0.5	0.1		
Operating leases	1.1	0.6	0.5		
Abandonment liabilities	24.0	4.7	7.2	7.7	4.4
Derivative liability(3)	22.4	17.0	5.4		
Other long-term liabilities	3.0	2.0	1.0		
<b>Total contractual cash commitments</b>	<b>\$ 166.1</b>	<b>\$ 24.8</b>	<b>\$ 129.2</b>	<b>\$ 7.7</b>	<b>\$ 4.4</b>

(1) As of December 31, 2004, we had incurred debt obligations under our credit facility and the JEDI promissory note that are due as follows: \$10 million in 2006; and \$105 million in 2007. However, we used

125

**Table of Contents**

a portion of the net proceeds of the private equity placement to repay a portion of amounts outstanding under our credit facility and \$6 million under the JEDI promissory note. As of November 30, 2005, we had incurred debt obligations under our credit facility of \$75 million and under the JEDI promissory note of \$4 million.

(2) Interest obligations represent approximately 14 months of interest due on the JEDI promissory note at 10%. Future interest obligations under our credit facility are uncertain, due to the variable interest rate on fluctuating balances. Based on a 5.2% weighted average interest rate on amounts outstanding under our credit facility as of December 31, 2004, \$5.5 million, \$5.5 million and \$0.9 million would be due under the credit facility in 2005, 2006 and 2007, respectively.

(3) As of September 30, 2005, the fair value of the derivative liabilities was \$105.1 million, including \$76.9 million due in less than one year.

**MMS Appeal** Mariner operates numerous properties in the Gulf of Mexico. Two of such properties were leased from the MMS subject to the Outer Continental Shelf Deep Water Royalty Relief Act (the RRA ). The RRA relieved the obligation to pay royalties on certain predetermined leases until a designated volume is produced. These two leases contained language that limited royalty relief if commodity prices exceeded predetermined levels. For the years 2000, 2001, 2003 and 2004, commodity prices exceeded the predetermined levels. Management believes the MMS did not have the authority to set pricing limits, and Mariner filed an administrative appeal with the MMS and has withheld royalties regarding this matter. The MMS filed a motion to dismiss our appeal with the Department of the Interior's Board of Land Appeals. On April 6, 2005, the Board of Land Appeals granted the MMS motion and dismissed our appeal. On October 3, 2005, we filed suit in the U.S. District Court for the Southern District of Texas seeking judicial review of the dismissal of our appeal by the Board of Land Appeals. Mariner has recorded a liability for 100% of the exposure on this matter which on September 30, 2005 was \$14.6 million. For additional information concerning the contested royalty payments and the MMS's demands, see Mariner Legal Proceedings below.

**Off-Balance Sheet Arrangements**

**Transportation Contract** In 1999, Mariner constructed a 29-mile flowline from a third party platform to the Mississippi Canyon 674 subsea well. After commissioning, MEGS LLC, an Enron affiliate, purchased the flowline from Mariner and its joint interest partner. In addition, Mariner entered into a firm transportation contract with MEGS LLC at a rate of \$0.26 per MMBtu to transport Mariner's share of approximately 130,000,000 MMBtus of natural gas from the commencement of production through March 2009. Mariner's working interest in the well is 51%. For the year ended December 31, 2003, Mariner paid \$1.9 million on this contract. The remaining volume commitment was 14,707,107 MMBtus or \$3.8 million net to Mariner. Pursuant to the contract, Mariner was required to deliver minimum quantities through the flowline or be subject to minimum monthly payment requirements.

On May 10, 2004, Mariner and the other 49% working interest owner in the Mississippi Canyon 674 well purchased the flowline from MEGS LLC for an adjusted purchase price of approximately \$3.8 million, of which approximately \$1.9 million was paid by Mariner, and terminated the transportation contract and associated liability. Accordingly, we currently have no off-balance sheet arrangements.

**Recent Accounting Pronouncements**

On December 16, 2004, the FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment*, (FASB No. 123(R)) that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of Mariner or liabilities that are based on the fair value of Mariner's equity securities. The new standard replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (FASB No. 123) and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally requires such transactions be accounted for using a fair-value-based method that recognizes



**Table of Contents**

compensation expense rather than the optional pro forma disclosure allowed under FASB No. 123. Mariner adopted the provisions of the new standard on January 1, 2005.

As a result of the adoption of the above described SFAS No. 123(R), we recorded compensation expense for the fair value of restricted stock that was granted pursuant to our Equity Participation Plan (see Management of Mariner Equity Participation Plan ) and for subsequent grants of stock options or restricted stock made pursuant to the Mariner Energy, Inc. Stock Incentive Plan (see Management of Mariner Stock Incentive Plan ). We recorded compensation expense for the restricted stock grants equal to their fair value at the time of the grant, amortized pro rata over the restricted period. General and administrative expense for the nine months ended September 30, 2005 includes \$17.2 million of compensation expense related to restricted stock granted in 2005 and \$0.4 million of compensation expense related to stock options outstanding as of September 30, 2005.

On September 2, 2004, the FASB issued FASB Staff Position No. FAS 142-2, *Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil and Gas Producing Entities*, addressing whether the scope exception within SFAS No. 142, *Goodwill and Other Intangible Assets* includes the balance sheet classification and disclosures for drilling and mineral rights of oil and gas producing properties. The FASB staff concluded that the accounting framework for oil and gas entities is based on the level of established reserves, not whether an asset is tangible or intangible, and thus the scope exception extended to the balance sheet classification and disclosure provisions for such assets.

On September 28, 2004, the SEC released Staff Accounting Bulletin ( SAB ) 106 regarding the application of SFAS 143, *Accounting for Asset Retirement Obligations ( AROs )*, by oil and gas producing companies following the full cost accounting method. Pursuant to SAB 106, oil and gas producing companies that have adopted SFAS 143 should exclude the future cash outflows associated with settling AROs (ARO liabilities) from the computation of the present value of estimated future net revenues for the purposes of the full cost ceiling calculation. In addition, estimated dismantlement and abandonment costs, net of estimated salvage values, that have been capitalized (ARO assets) should be included in the amortization base for computing depreciation, depletion and amortization expense. Disclosures are required to include discussion of how a company's ceiling test and depreciation, depletion and amortization calculations are impacted by the adoption of SFAS 143. SAB 106 is effective prospectively as of the beginning of the first fiscal quarter beginning after October 4, 2004. Since our adoption of SFAS 143 on January 1, 2003, we have calculated the ceiling test and our depreciation, depletion and amortization expense in accordance with the interpretations set forth in SAB 106; therefore, the adoption SAB 106 had no effect on our financial statements.

On December 16, 2004, the FASB issued Statement 153, *Exchanges of Nonmonetary Assets*, an amendment of APB Opinion No. 29, to clarify the accounting for nonmonetary exchanges of similar productive assets. SFAS 153 eliminates the exception from the fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The statement will be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not have any nonmonetary transactions for any period presented to which this statement would apply. We do not expect the adoption of SFAS 153 to have a material impact on our financial statements.

**Quantitative and Qualitative Disclosures About Market Risk.**

For a discussion of our market risk, See Liquidity and Capital Resources Commodity Prices and Related Hedging Activities.

**Table of Contents**

**MARINER**

We are an independent oil and gas exploration, development and production company with principal operations in the Gulf of Mexico and the Permian Basin in West Texas. As of December 31, 2004, we had 237.5 Bcfe of proved reserves, of which approximately 64% were natural gas and 36% were oil and condensate. The estimated pre-tax PV10 value of our proved reserves as of December 31, 2004 was approximately \$668 million, and the standardized measure of discounted future net cash flows attributable to our estimated proved reserves was approximately \$494.4 million. Please see [Mariner Estimated Proved Reserves](#) for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows. As of December 31, 2004, approximately 46% of our proved reserves were classified as proved developed. For the year ended December 31, 2004, our total net production was 37.6 Bcfe. Our proved reserve base is balanced, with 48% of the reserves located in the Permian Basin of West Texas, 37% in the Gulf of Mexico deepwater and 15% on the Gulf of Mexico shelf as of December 31, 2004.

The distribution of our proved reserves reflects our efforts over the last three years to diversify our asset base, which in prior years had been focused primarily in the Gulf of Mexico deepwater. We have shifted some of our focus on deepwater activities to increased exploration and development on the Gulf of Mexico shelf and exploitation of our West Texas Permian Basin properties. By allocating our resources among these three areas, we expect to balance the risks associated with the exploration and development of our asset base. We intend to continue to pursue moderate-risk exploratory and development drilling projects in the Gulf of Mexico deepwater and on the Gulf of Mexico shelf, including select deep shelf prospects, and also target low-risk infill drilling projects in West Texas. It is our practice to generate most of our prospects internally, but from time to time we also acquire third-party generated prospects. We then drill to find oil and natural gas reserves, a process that we refer to as [growth through the drill bit](#).

The following discussion includes statements that may be deemed [forward-looking statements](#) within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See [Cautionary Statement Concerning Forward-Looking Statements](#) for more details. Also, the discussion uses terms that pertain to the oil and gas industry, and you should see [Glossary of Oil and Natural Gas Terms](#) for the definition of certain terms.

**Table of Contents****Significant Properties**

We own oil and gas properties, producing and non-producing, onshore in Texas and offshore in the Gulf of Mexico, primarily in federal waters. Our largest properties, based on the present value of estimated future net proved reserves as of December 31, 2004, are shown in the following table.

	Mariner Working Operator	Approximate Water Depth (Feet)	Gross Producing Wells(1)	Date Commenced Expected	Estimated Proved Reserves (Bcfe)	PV10 Value (In \$ Millions)(2)	Standardized Measure (In \$ Millions)
%							
<b>West Texas Permian Basin:</b>							
Aldwell Unit	Mariner	66.5(3)	Onshore	185	1949	112.7	\$ 203.8
<b>Gulf of Mexico Deepwater:</b>							
Mississippi Canyon 296/252 (Rigel)	Dominion	22.5	5,200	0	Second Quarter 2006	22.4	82.9
Viosca Knoll 917/961/962 (Swordfish)	Mariner(4)	15.0	4,700	2	Fourth Quarter 2005	13.4	59.3
Green Canyon 516 (Yosemite)	ENI	44.0	3,900	1	2002	15.1	66.6
Mississippi Canyon 718 (Pluto)(5)	Mariner	51.0	2,830	0	1999	9.0	31.7
Green Canyon 178 (Baccarat)	W&T	40.0	1,400	0	Third Quarter 2005	4.0	14.3
Green Canyon 472/473 (King Kong)	ENI	50.0	3,850	0	2002	1.2	2.0
<b>Gulf of Mexico Shelf:</b>							
Mississippi Canyon 66 (Ochre)(6)	Mariner	75.0	1,150	0	2004	3.6	11.7
Other Properties				43		56.1	195.7
<b>Total:</b>				231		237.5	\$ 668.0 \$ 494.4

(1) Wells producing or capable of producing as of December 31, 2004.

- (2) Please see *Mariner Estimated Proved Reserves* for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows.
- (3) We operate the field and own working interests in individual wells ranging from approximately 33% to 84%.
- (4) Mariner served as operator until December 2005, at which time pursuant to certain contractual arrangements, Noble Energy, Inc., a 60% partner in the project, began serving as operator.
- (5) This field was shut-in in April 2004 pending the drilling of a new well and installation of an extension to the existing infield flowline and umbilical. As a result, as of December 31, 2004, 9.0 Bcfe of our net proved reserves attributable to this project were classified as proved undeveloped reserves. We expect production from Pluto to recommence in the second quarter of 2006.
- (6) Field has been shut in since September 2004 due to destruction of host platform by Hurricane Ivan.

***West Texas Permian Basin***

*Aldwell Unit.* We operate and own working interests in individual wells ranging from 33% to 84% (with an average working interest of approximately 66.5%), in the 18,500-acre Aldwell Unit. The field is located in the heart of the Spraberry geologic trend southeast of Midland, Texas, and has produced oil and gas since 1949. We began our recent redevelopment of the Aldwell Unit by drilling eight wells in the fourth quarter of 2002, 43 wells in 2003, and 54 wells in 2004. As of December 31, 2004, there were a total of 185 wells producing or capable of producing in the field. Our aggregate net capital expenditures for the 2004 drilling

**Table of Contents**

program in the field were approximately \$20.3 million, and we added 27 Bcfe of proved reserves, while producing 4.0 Bcfe.

During 2005, we have accelerated our development program in West Texas. Through September 30, 2005, we had drilled 65 new wells at our Aldwell and North Stiles Units. All of our drilling in the Aldwell and North Stiles Units has resulted in commercially successful wells that are expected to produce in quantities sufficient to exceed costs of drilling and completion. Our net production from onshore wells for the nine months ended September 30, 2005 averaged approximately 17 MMcfe per day.

We have completed construction of our own oil and gas gathering system and compression facilities in the Aldwell Unit. We began flowing gas production through the new facilities on June 1, 2005. We have also entered into new contracts with third parties to provide processing of our natural gas and transportation of our oil produced in the unit. The new gas arrangement also provides us with the option to sell our gas to one of four firm or five interruptible sales pipelines versus a single outlet under the former arrangement. We expect these arrangements to improve the economics of production from the Aldwell Unit.

In December 2004, we acquired an approximate 45% working interest in two Permian Basin fields containing over 4,000 acres. We believe the fields contain more than twenty 80-acre infill drilling locations and that either or both may also have 40-acre infill drilling opportunities. We have commenced drilling operations in one of the fields. In February 2005, we acquired five producing wells located in Howard County, Texas, approximately 50 miles north of our Aldwell Unit. The purchase price was \$3.5 million, subject to post-closing adjustments.

In August 2005, but effective in October 2005, we entered into an agreement covering approximately 33,000 acres in West Texas, pursuant to which, upon closing, we acquired an approximate 35% working interest in approximately 200 existing producing wells effective November 1, 2005, and committed to drill an additional 150 wells within a four year period, funding \$36.5 million of our partner's share of drilling costs for such 150-well drilling program. We will obtain an assignment of an approximate 35% working interest in the entire committed acreage upon completion of the 150-well program.

***Gulf of Mexico Deepwater***

*Mississippi Canyon 296 (Rigel)*. Mariner generated the Rigel prospect and acquired its interest in Mississippi Canyon block 296 at a federal offshore Gulf lease sale in March 1999. Pursuant to an agreement with third parties, in September 1999 we cross-assigned leasehold interests in Mississippi Canyon blocks 208, 252 and 296 with the result that our working interest in all three blocks is now 22.5%. The project is located approximately 130 miles southeast of New Orleans, Louisiana, in water depth of approximately 5,200 feet. A successful exploration well was drilled on the prospect in 1999. In September 2003, a successful appraisal well was drilled. This project is currently under development with a single subsea well and a planned 12-mile subsea tie back to an existing subsea manifold that is connected to an existing platform. We expect production to begin in the second quarter of 2006.

*Viosca Knoll 917/961/962 (Swordfish)*. Mariner generated the Swordfish prospect and entered into a farm-out agreement with BP in September 2001. We operated Swordfish until December 2005 and own a 15% working interest in this project, which is located in the deepwater Gulf of Mexico 105 miles southeast of New Orleans, Louisiana, in a water depth of approximately 4,700 feet. In November and December of 2001, we drilled two successful exploration wells on blocks 917 and 962. In August 2004, a successful appraisal well found additional reserves on block 961. All wells have been completed. Due to the impact of Hurricane Katrina on the host facility, expected initial production was delayed until the fourth quarter of 2005.

*Green Canyon 516 (Yosemite)*. Mariner generated the Yosemite prospect and acquired the prospect at a Gulf of Mexico federal lease sale in 1998. We have a 44% working interest in this project, located in approximately 3,900 feet of water, approximately 150 miles southeast of New Orleans. In 2001, we drilled an exploratory well on the prospect, and in February 2002, we commenced production via a joint King Kong/ Yosemite 16 mile subsea tieback to an existing platform.

**Table of Contents**

*Mississippi Canyon 718 (Pluto).* Mariner initially acquired an interest in this project in 1997, two years after gas was discovered on the project. We operate the property and own a 51% working interest in the project and the 29-mile flowline that connects to a third-party production platform. We developed the field with a single subsea well which is located in the Gulf of Mexico approximately 150 miles southeast of New Orleans, Louisiana, at a water depth of approximately 2,830 feet. The field was shut-in in April 2004 pending the drilling of a new well and completion of the installation of an extension to the existing infield flowline and umbilical. Installation of the subsea facilities is now complete. During start up operations, a paraffin plug was discovered in the flow line between the Pluto field and the host facility. Remediation efforts are in progress and nearing completion. Production is expected to recommence in the second quarter of 2006, following completion of repairs to the host facilities necessitated by damage inflicted by Hurricane Katrina.

*Green Canyon 178 (Baccarat).* Mariner generated the Baccarat prospect and acquired a 100% working interest in Green Canyon block 178 at a Gulf of Mexico federal offshore lease sale in July 2003. The project is located in approximately 1,400 feet of water approximately 145 miles southwest of New Orleans, Louisiana. Subsequent to the acquisition, Mariner entered into a farmout agreement, retaining a 40% working interest in the project. A successful exploration well was drilled in May 2004. The project is under development as a subsea tieback to an existing host platform and was brought online in the third quarter of 2005. The host platform sustained damage during Hurricane Rita, resulting in production being shut-in. Production recommenced in January 2006.

*Green Canyon 472/473 (King Kong).* In July 2000, Mariner acquired a 50% working interest in the King Kong Gulf of Mexico project. The project is located in approximately 3,850 feet of water, approximately 150 miles southeast of New Orleans. Mariner completed the project as a joint King Kong/ Yosemite 16 mile subsea tieback to an existing platform. Production began in February 2002.

*Other Prospects and Activity*

In late 2004, we participated in a successful exploratory well in our North Black Widow prospect in Ewing Banks 921, which is located approximately 125 miles south of New Orleans in approximately 1,700 feet of water. We have a 35% working interest in this project. A development plan for the North Black Widow prospect has been approved and the operator of this project currently anticipates production from this project to begin in the second quarter of 2006. At June 30, 2005 approximately 4.5 Bcfe of estimated proved reserves have been assigned net to Mariner's interest.

In May 2005, we acquired an additional 18.75% working interest in the Bass Lite project for approximately \$5.0 million, bringing our total working interest to 38.75%. The Bass Lite project is located in Atwater Valley blocks 380, 381, 382, 425 and 426, approximately 200 miles southeast of New Orleans in approximately 6,500 feet of water. We were elected operator of this project, subject to MMS approval, and negotiations continue with third party host facilities and partners to establish firm development plans. At June 30, 2005 approximately 30.7 Bcfe of estimated proved reserves have been assigned net to Mariner's interest.

In June 2005, we increased our working interest in the LaSalle project (East Breaks 558, 513, and 514) to 100% by acquiring the remaining working interest owned by a third party for \$1.5 million. The blocks contain an undeveloped discovery, as well as exploration potential. As of December 31, 2004, we have booked no proved reserves to this project. We have recently executed a participation agreement with Kerr McGee to jointly develop the LaSalle project and Kerr McGee's nearby NW Nansen exploitation project (East Breaks 602). Under the proposed participation agreement, Mariner owns a 33% working interest in the NW Nansen project and a 50% working interest in the LaSalle project. The LaSalle and NW Nansen projects are located approximately 150 miles south of Galveston, Texas in water depths of approximately 3,100 and 3,300 feet, respectively. The development of these projects may require the drilling of up to four wells in 2005 and 2006 and related completion and facility capital in 2006.

At the King Kong/ Yosemite field (Green Canyon blocks 516, 472, and 473) we have planned, in conjunction with the operator, a two well drilling program to exploit potential new reserve additions. We anticipate drilling one development well and one exploration well the first on block 473 and the second on

**Table of Contents**

block 472, both in the first quarter of 2006. We own a 50% working interest in blocks GC 472 and 473 and a 44% working interest in block 516.

***Gulf of Mexico Shelf***

*Mississippi Canyon 66 (Ochre).* Mariner acquired its Ochre prospect at a Gulf of Mexico federal lease sale in March 2002. We operate and own a 75% working interest in this project, which is located in the Gulf of Mexico approximately 100 miles southeast of New Orleans, Louisiana, in a water depth of approximately 1,150 feet. In late 2002, we drilled a successful exploration well on the prospect and commenced production in the first quarter of 2004 via subsea tieback of approximately 7 miles to the Taylor Mississippi Canyon 20 platform. In September 2004, Hurricane Ivan destroyed the Taylor platform. We recently entered into a production handling agreement with the operator of a nearby replacement host facility, and production is expected to recommence in the first quarter of 2006, following completion of repairs to the host facility necessitated by damage inflicted by Hurricane Katrina and the installation of the flowline and umbilical.

***Other Activity***

In connection with the March 2005 Central Gulf of Mexico federal lease sale, we were awarded West Cameron block 386 located in water depth of approximately 85 feet. In connection with the August 2005 Western Gulf of Mexico lease sale, we were awarded one shelf block (High Island A2) and four deepwater blocks (East Breaks 344, East Breaks 843, East Breaks 844 and East Breaks 709).

In May 2005 we drilled the Capricorn discovery well, which encountered over 100 net feet of pay in four zones. The Capricorn project is located in High Island block A341 approximately 115 miles south southwest of Cameron, Louisiana in approximately 240 feet of water. We anticipate drilling an appraisal well and installing the necessary platform and facilities in the first quarter of 2006, with first production anticipated in 2006. We are the operator and own a 60% working interest in the project.

**Estimated Proved Reserves**

The following tables set forth certain information with respect to our estimated proved reserves by geographic area as of December 31, 2004. Reserve volumes and values were determined under the method prescribed by the SEC which requires the application of period-end prices and costs held constant throughout the projected reserve life. The reserve information as of December 31, 2004 is based on estimates made in a reserve report prepared by Ryder Scott. A summary of Ryder Scott's report on our proved reserves as of December 31, 2004 is attached to this proxy statement/prospectus-information statement as Annex F and is consistent with filings we make with federal agencies.

**Estimated Proved  
Reserve Quantities**

Geographic Area	Oil (MMbbls)	Natural Gas (Bcf)	Total (Bcfe)	PV10 Value(3)			Standardized Measure  (Millions)
				Developed	Undeveloped	Total	
West Texas Permian Basin	8.7	62.8	114.8	\$ 141.1	\$ 64.4	\$ 205.5	
Gulf of Mexico Deepwater(1)	4.5	59.8	86.7	91.1	219.6	310.7	
Gulf of Mexico Shelf(2)	1.1	29.3	36.0	103.2	48.6	151.8	
Total	14.3	151.9	237.5	\$ 335.4	\$ 332.6	\$ 668.0	\$ 494.4
	6.3	71.4	109.4				

Proved Developed  
Reserves

- (1) Deepwater refers to water depths greater than 1,300 feet (the approximate depth of deepwater designation for royalty purposes by the U.S. Minerals Management Service).
- (2) Shelf refers to water depths less than 1,300 feet and includes an insignificant amount of Gulf Coast onshore properties.



**Table of Contents**

(3) Please see Mariner Estimated Proved Reserves for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows.

Uncertainties are inherent in estimating quantities of proved reserves, including many factors beyond the control of Mariner. Reserve engineering is a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and the interpretation thereof. As a result, estimates by different engineers often vary, sometimes significantly. In addition, physical factors such as the results of drilling, testing, and production subsequent to the date of an estimate, as well as economic factors such as change in product prices, may require revision of such estimates. Accordingly, oil and gas quantities ultimately recovered will vary from reserve estimates.

PV10 is our estimated present value of future net revenues from proved reserves before income taxes. PV10 may be considered a non-GAAP financial measure under SEC regulations because it does not include the effects of future income taxes, as is required in computing the standardized measure of discounted future net cash flows. We believe PV10 to be an important measure for evaluating the relative significance of our natural gas and oil properties and that PV10 is widely used by professional analysts and investors in evaluating oil and gas companies. Because many factors that are unique to each individual company impact the amount of future income taxes to be paid, the use of a pre-tax measure provides greater comparability of assets when evaluating companies. We believe that most other companies in the oil and gas industry calculate PV10 on the same basis. Management also uses PV10 in evaluating acquisition candidates. PV10 is computed on the same basis as the standardized measure of discounted future net cash flows but without deducting income taxes. The table below provides a reconciliation of PV10 to the standardized measure of discounted future net cash flows.

	<b>At December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
PV10	\$ 667,975	\$ 533,544	\$ 514,995
Future income taxes, discounted at 10%	173,593	115,385	51,423
Standardized measure of discounted future net cash flows	\$ 494,382	\$ 418,159	\$ 463,572

Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Therefore, without reserve additions in excess of production through successful exploration and development activities or acquisitions, Mariner's reserves and production will decline. See Risk Factors and Note 10 to the Mariner financial statements included elsewhere in this prospectus for a discussion of the risks inherent in oil and natural gas estimates and for certain additional information concerning the proved reserves.

The weighted average prices of oil and natural gas at December 31, 2004 used in the proved reserve and future net revenues estimates above were calculated using NYMEX prices at December 31, 2004, of \$43.45 per bbl of oil and \$6.15 per MMBtu of gas, adjusted for our price differentials but excluding the effects of hedging.

**Table of Contents****Production**

The following table presents certain information with respect to net oil and natural gas production attributable to our properties, average sales price received and expenses per unit of production during the periods indicated.

	Nine Months Ended September 30, 2005	Year Ended December 31,		
		2004	2003	2002
<b>(Unaudited)</b>				
<b>Production:</b>				
Natural Gas (Bcf)	14.5	23.8	23.8	29.6
Oil (MMbbls)	1.3	2.3	1.6	1.7
Total natural gas equivalent (Bcfe)	22.5	37.6	33.4	39.8
<b>Average realized sales price per unit (excluding effects of hedging):</b>				
Natural gas (\$/Mcf)	\$ 7.23	\$ 6.12	\$ 5.43	\$ 3.35
Oil (\$/bbl)	50.17	38.52	26.85	21.60
Total natural gas equivalent (\$/Mcfe)	7.63	6.23	5.15	3.41
<b>Average realized sales price per unit (including effects of hedging):</b>				
Natural gas (\$/Mcf)	\$ 6.54	\$ 5.80	\$ 4.40	\$ 4.03
Oil (\$/bbl)	40.12	33.17	23.74	22.85
Total natural gas equivalent (\$/Mcfe)	6.59	5.70	4.27	3.97
<b>Expenses (\$/Mcfe):</b>				
Lease operating	\$ 0.90	\$ 0.68	\$ 0.74	\$ 0.65
Transportation	0.08	0.08	0.19	0.26
General and administrative, net(1)	1.18	0.23	0.24	0.19
Depreciation, depletion and amortization (excluding impairments)	1.93	1.73	1.45	1.78

- (1) Net of overhead reimbursements received from other working interest owners and amounts capitalized under the full cost accounting method. General and administrative expenses for the nine months ended September 30, 2005 include compensation expense of \$17.6 million for restricted stock and options granted in March 2005.

**Productive Wells**

The following table sets forth the number of productive oil and gas wells in which we owned a working interest at December 31, 2003 and December 31, 2004.

	Total Productive Wells at			
	December 31, 2004		December 31, 2003	
	Gross	Net	Gross	Net
Oil	197	127.9	141	101.3

Edgar Filing: MARINER ENERGY INC - Form S-4/A

Gas	34	9.5	37	10.1
Total	231	137.4	178	111.4

134

---

**Table of Contents****Acreage**

The following table sets forth certain information with respect to the developed and undeveloped acreage as of December 31, 2004.

	<b>Developed Acres(1)</b>		<b>Undeveloped Acres(2)</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
West Texas	22,413	14,448		
Gulf of Mexico Deepwater(3)	79,200	30,275	224,640	124,588
Gulf of Mexico Shelf(4)	130,302	36,979	130,186	84,242
Other Onshore	3,232	732	856	243
<b>Total</b>	<b>235,147</b>	<b>82,434</b>	<b>355,682</b>	<b>209,073</b>

- (1) Developed acres are acres spaced or assigned to productive wells.
- (2) Undeveloped acres are acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.
- (3) Deepwater refers to water depths greater than 1,300 feet (the approximate depth of deepwater designated for royalty purposes by the U.S. Minerals Management Service).
- (4) Shelf refers to water depths less than 1,300 feet.

The following table sets forth our offshore undeveloped acreage as of December 31, 2004 that is subject to expiration during the three years ended December 31, 2007. The amount of onshore undeveloped acreage subject to expiration is not material.

	<b>Undeveloped Acreage Subject to Expiration in the Year Ended December 31,</b>					
	<b>2005</b>		<b>2006</b>		<b>2007</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
Gulf of Mexico Deepwater			46,080	12,988	28,800	9,360
Gulf of Mexico Shelf	9,298	3,100	10,760	6,260	46,000	31,183
<b>Total</b>	<b>9,298</b>	<b>3,100</b>	<b>56,840</b>	<b>19,248</b>	<b>74,800</b>	<b>40,543</b>

**Drilling Activity**

Certain information with regard to our drilling activity during the years ended December 31, 2002, 2003, and 2004 is set forth below.

## Year Ended December 31,

	2004		2003		2002	
	Gross	Net	Gross	Net	Gross	Net
<b>Exploratory wells:</b>						
Producing	7	3.34	6	2.03	2	1.00
Dry	7	2.65	6	2.35	5	2.10
Total	14	5.99	12	4.38	7	3.10
<b>Development wells:</b>						
Producing	56	34.84	45	30.07	11	6.65
Dry	1	0.68				
Total	57	35.52	45	30.07	11	6.65
<b>Total wells:</b>						
Producing	63	38.18	51	32.10	13	7.65
Dry	8	3.33	6	2.35	5	2.10
Total	71	41.51	57	34.45	18	9.75

We were in the process of drilling 2 gross (1.16 net) wells as of December 31, 2004.

**Table of Contents****Property Dispositions**

When appropriate, we consider the sale of discoveries that are not yet producing or have recently begun producing when we believe we can obtain acceptable returns on our investment without holding the investment through depletion. Such sales enable us to maintain and redeploy the proceeds to activities that we believe have a higher potential financial return. No property dispositions of producing properties were made during the three years ended December 31, 2004. However, we sold an aggregate 50% working interest in our non-producing deepwater Falcon and Harrier projects in two separate sales for \$48.8 million in 2002 and \$121.6 million in 2003, respectively.

**Marketing and Customers**

We market substantially all of the oil and natural gas production from the properties we operate as well as the properties operated by others where our interest is significant. The majority of our natural gas, oil and condensate production is sold to a variety of purchasers under short-term (less than 12 months) contracts at market-based prices. The following table lists customers accounting for more than 10% of our total revenues for the year indicated.

Customer	Percentage of Total Revenues for Year Ended December 31,		
	2004	2003	2002
Sempra	*	34%	
Bridgeline Gas Distributing Company	27%	19%	42%
Trammo Petroleum Inc.	9%	14%	
Conoco Phillips	*	*	14%
Duke Energy	*	6%	9%
Genesis Crude Oil LP	*	4%	4%
Chevron Texaco	18%		
BP Energy	12%		

\* Less than 1%

**Title to Properties**

Substantially all of our properties currently are subject to liens securing either our credit facility and obligations under hedging arrangements with members of our bank group or the promissory note payable to JEDI. In addition, our properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other typical burdens and encumbrances. We do not believe that any of these burdens or encumbrances materially interferes with the use of such properties in the operation of our business. Our properties may also be subject to obligations or duties under applicable laws, ordinances, rules, regulations and orders of governmental authorities.

We believe that we have satisfactory title to or rights in all of our producing properties. As is customary in the oil and natural gas industry, minimal investigation of title is made at the time of acquisition of undeveloped properties. Title investigation is made usually only before commencement of drilling operations. We believe that title issues generally are not as likely to arise on offshore oil and gas properties as on onshore properties.

**Competition**

We believe that our leasehold acreage, exploration, drilling and production capabilities, large 3-D seismic database and technical and operational experience generally enable us to compete effectively. However, our competitors include major integrated oil and natural gas companies and numerous independent oil and natural gas companies, individuals and drilling and income programs. Many of our larger competitors possess and



**Table of Contents**

employ financial and personnel resources substantially greater than those available to us. Such companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and discover reserves in the future is dependent upon our ability to evaluate and select suitable properties and consummate transactions in a highly competitive environment. In addition, there is substantial competition for capital available for investment in the oil and natural gas industry. Larger competitors may be better able to withstand sustained periods of unsuccessful drilling and absorb the burden of changes in laws and regulations more easily than we can, which would adversely affect our competitive position.

**Royalty Relief**

The RRA, signed into law on November 28, 1995, provides that all tracts in the Gulf of Mexico west of 87 degrees, 30 minutes West longitude in water more than 200 meters deep offered for bid within five years of the RRA will be relieved from normal federal royalties as follows:

**Water Depth****Royalty Relief**

200-400 meters	no royalty payable on the first 105 Bcfe produced
400-800 meters	no royalty payable on the first 315 Bcfe produced
800 meters or deeper	no royalty payable on the first 525 Bcfe produced

Leases offered for bid within five years of the RRA are referred to as post-Act leases. The RRA also allows mineral interest owners the opportunity to apply for discretionary royalty relief for new production on leases acquired before the RRA was enacted ( pre-Act leases ) and on leases acquired after November 28, 2000 ( post-2000 leases ). If the MMS determines that new production under a pre-Act lease or post-2000 lease would not be economical without royalty relief, then the MMS may relieve a portion of the royalty to make the project economical.

In addition to granting discretionary royalty relief, the MMS has elected to include automatic royalty relief provisions in many post-2000 leases, even though the RRA no longer applies. For each post-2000 lease sale that has occurred to date, the MMS has specified the water depth categories and royalty suspension volumes applicable to production from leases issued in the sale.

In 2004, the MMS adopted additional royalty relief incentives for production of natural gas from reservoirs located deep under shallow waters of the Gulf of Mexico. These incentives apply to gas produced in water depths of less than 200 meters and from deep gas accumulations located at depths of greater than 15,000 feet below the shelf. Drilling of qualified wells must have started on or after March 26, 2003, and production must begin prior to January 26, 2009.

The impact of royalty relief can be significant. The normal royalty due for leases in water depths of 400 meters or less is 16.7% of production, and the normal royalty for leases in water depths greater than 400 meters is 12.5% of production. Royalty relief can substantially improve the economics of projects located in deepwater or in shallow water and involving deep gas.

Many of our leases from the MMS contain language suspending royalty relief if commodity prices exceed predetermined threshold levels for a given calendar year. As a result, royalty relief for a lease in a particular calendar year may be contingent upon average commodity prices staying below the threshold price specified for that year. In 2000, 2001, 2003 and 2004 natural gas prices exceeded the applicable price thresholds for a number of our projects, and we have been required to pay royalties for natural gas produced in those years. However, we contested the MMS authority to include price thresholds in two of our post-Act leases, Black Widow and Garden Banks 367. We believe that post-Act leases are entitled to automatic royalty relief under the RRA regardless of commodity prices, and have pursued administrative and judicial remedies in this dispute with the MMS. For more information concerning the contested royalty payments and the MMS' s demands, see [Legal Proceedings](#) below.



**Table of Contents****Regulation**

Our operations are subject to extensive and continually changing regulation affecting the oil and natural gas industry. Many departments and agencies, both federal and state, are authorized by statute to issue, and have issued, rules and regulations binding on the oil and natural gas industry and its individual participants. The failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases our cost of doing business and, consequently, affects our profitability. We do not believe that we are affected in a significantly different manner by these regulations than are our competitors.

***Transportation and Sale of Natural Gas***

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and the regulations promulgated thereunder by the Federal Energy Regulatory Commission (FERC). In the past, the federal government has regulated the prices at which natural gas could be sold. Deregulation of natural gas sales by producers began with the enactment of the Natural Gas Policy Act of 1978. In 1989, Congress enacted the Natural Gas Wellhead Decontrol Act, which removed all remaining Natural Gas Act of 1938 and Natural Gas Policy Act of 1978 price and non-price controls affecting producer sales of natural gas effective January 1, 1993. Congress could, however, re-enact price controls in the future. The FERC regulates interstate natural gas pipeline transportation rates and service conditions, which affect the marketing of gas produced by us and the revenues received by us for sales of such natural gas. The FERC requires interstate pipelines to provide open-access transportation on a non-discriminatory basis for all natural gas shippers. The FERC frequently reviews and modifies its regulations regarding the transportation of natural gas with the stated goal of fostering competition within all phases of the natural gas industry. In addition, with respect to production onshore or in state waters, the intra-state transportation of natural gas would be subject to state regulatory jurisdiction as well.

In August, 2005, Congress enacted the Energy Policy Act of 2005 ( EP Act 2005 ). Among other matters, EP Act 2005 amends the Natural Gas Act ( NGA ) to make it unlawful for any entity , including otherwise non-jurisdictional producers such as Mariner and Forest, to use any deceptive or manipulative device or contrivance in connection with the purchase or sale of natural gas or the purchase or sale of transportation services subject to regulation by the FERC, in contravention of rules prescribed by the FERC. On January 19, 2006, the FERC issued regulations implementing this provision. The regulations make it unlawful in connection with the purchase or sale of natural gas subject to the jurisdiction of the FERC, or the purchase or sale of transportation services subject to the jurisdiction of the FERC, for any entity, directly or indirectly, to use or employ any device, scheme or artifice to defraud; to make any untrue statement of material fact or omit to make any such statement necessary to make the statements made not misleading; or to engage in any act or practice that operates as a fraud or deceit upon any person. EP Act 2005 also gives the FERC authority to impose civil penalties for violations of the NGA up to \$1,000,000 per day per violation. The new anti-manipulation rule does not apply to activities that relate only to intrastate or other non-jurisdictional sales or gathering, but does apply to activities of otherwise non-jurisdictional entities to the extent the activities are conducted in connection with gas sales, purchases or transportation subject to FERC jurisdiction. It therefore reflects a significant expansion of the FERC's enforcement authority. We do not anticipate we will be affected any differently than other producers of natural gas.

Additional proposals and proceedings that might affect the natural gas industry are considered from time to time by Congress, the FERC, state regulatory bodies and the courts. We cannot predict when or if any such proposals might become effective or their effect, if any, on our operations. The natural gas industry historically has been closely regulated; thus, there is no assurance that the less stringent regulatory approach recently pursued by the FERC and Congress will continue indefinitely into the future.

**Table of Contents*****Regulation of Production***

The production of oil and natural gas is subject to regulation under a wide range of state and federal statutes, rules, orders and regulations. State and federal statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Texas and Louisiana, the states in which we own and operate properties, have regulations governing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from oil and natural gas wells, the spacing of wells, and the plugging and abandonment of wells and removal of related production equipment. Texas and Louisiana also restrict production to the market demand for oil and natural gas and several states have indicated interests in revising applicable regulations. These regulations can limit the amount of oil and natural gas we can produce from our wells, limit the number of wells, or limit the locations at which we can conduct drilling operations. Moreover, each state generally imposes a production or severance tax with respect to production and sale of crude oil, natural gas and gas liquids within its jurisdiction.

Most of our offshore operations are conducted on federal leases that are administered by the MMS. Such leases require compliance with detailed MMS regulations and orders pursuant to the Outer Continental Shelf Lands Act that are subject to interpretation and change by the MMS. Among other things, we are required to obtain prior MMS approval for our exploration plans and development and production plans at each lease. MMS regulations also impose construction requirements for production facilities located on federal offshore leases, as well as detailed technical requirements for plugging and abandonment of wells, and removal of platforms and other production facilities on such leases. The MMS requires lessees to post surety bonds, or provide other acceptable financial assurances, to ensure all obligations are satisfied on federal offshore leases. The cost of these surety bonds or other financial assurances can be substantial, and there is no assurance that bonds or other financial assurances can be obtained in all cases. We are currently in compliance with all MMS financial assurance requirements. Under certain circumstances, the MMS is authorized to suspend or terminate operations on federal offshore leases. Any suspension or termination of operations on our offshore leases could have an adverse effect on our financial condition and results of operations.

In 2000, the MMS issued a final rule that governs the calculation of royalties and the valuation of crude oil produced from federal leases. That rule amended the way that the MMS values crude oil produced from federal leases for determining royalties by eliminating posted prices as a measure of value and relying instead on arm's-length sales prices and spot market prices as indicators of value. On May 5, 2004, the MMS issued a final rule that changed certain components of its valuation procedures for the calculation of royalties owed for crude oil sales. The changes include changing the valuation basis for transactions not at arm's-length from spot to NYMEX prices adjusted for locality and quality differentials, and clarifying the treatment of transactions under a joint operating agreement. We believe that the changes will not have a material impact on our financial condition, liquidity or results of operations.

***Environmental Regulations***

Our operations are subject to numerous stringent and complex laws and regulations at the federal, state and local levels governing the discharge of materials into the environment or otherwise relating to human health and environmental protection. These laws and regulations may, among other things:

require acquisition of a permit before drilling commences;

restrict the types, quantities and concentrations of various materials that can be released into the environment in connection with drilling and production activities; and

limit or prohibit construction or drilling activities in certain ecologically sensitive and other protected areas.

Failure to comply with these laws and regulations or to obtain or comply with permits may result in the assessment of administrative, civil and criminal penalties, imposition of remedial requirements and the imposition of injunctions to force future compliance. Offshore drilling in some areas has been opposed by environmental groups and, in some areas, has been restricted. Our business and prospects could be adversely

**Table of Contents**

affected to the extent laws are enacted or other governmental action is taken that prohibits or restricts our exploration and production activities or imposes environmental protection requirements that result in increased costs to us or the oil and natural gas industry in general.

*Spills and Releases.* The Comprehensive Environmental Response, Compensation and Liability Act ( CERCLA ), also known as Superfund , and analogous state laws, impose joint and several liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a hazardous substance into the environment. These persons include the owner and operator of the site where the release occurred, past owners and operators of the site, and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Responsible parties under CERCLA may be liable for the costs of cleaning up hazardous substances that have been released into the environment and for damages to natural resources. Additionally, it is not uncommon for neighboring landowners and other third parties to file tort claims for personal injury and property damage allegedly caused by the release of hazardous substances into the environment. In the course of our ordinary operations, we may generate waste that may fall within CERCLA s definition of a hazardous substance.

We currently own, lease or operate, and have in the past owned, leased or operated, numerous properties that for many years have been used for the exploration and production of oil and gas. Many of these properties have been operated by third parties whose actions with respect to the treatment and disposal or release of hydrocarbons or other wastes were not under our control. It is possible that hydrocarbons or other wastes may have been disposed of or released on or under such properties, or on or under other locations where such wastes may have been taken for disposal. These properties and wastes disposed thereon may be subject to CERCLA and analogous state laws. Under such laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial plugging operations to prevent future contamination, or to pay the costs of such remedial measures. Although we believe we have utilized operating and disposal practices that are standard in the industry, during the course of operations hydrocarbons and other wastes have been released on some of the properties we own, lease or operate. We are not presently aware of any pending clean-up obligations that could have a material impact on our operations or financial condition.

*The Oil Pollution Act.* The OPA and regulations thereunder impose strict, joint and several liability on responsible parties for damages, including natural resource damages, resulting from oil spills into or upon navigable waters, adjoining shorelines or in the exclusive economic zone of the U.S. A responsible party includes the owner or operator of an onshore facility and the lessee or permittee of the area in which an offshore facility is located. The OPA establishes a liability limit for onshore facilities of \$350 million, while the liability limit for offshore facilities is equal to all removal costs plus up to \$75 million in other damages. These liability limits may not apply if a spill is caused by a party s gross negligence or willful misconduct, the spill resulted from violation of a federal safety, construction or operating regulation, or if a party fails to report a spill or to cooperate fully in a clean-up.

The OPA also requires the lessee or permittee of an offshore area in which a covered offshore facility is located to provide financial assurance in the amount of \$35 million to cover liabilities related to an oil spill. The amount of financial assurance required under the OPA may be increased up to \$150 million depending on the risk represented by the quantity or quality of oil that is handled by a facility. The failure to comply with the OPA s requirements may subject a responsible party to civil, criminal, or administrative enforcement actions. We are not aware of any action or event that would subject us to liability under the OPA, and we believe that compliance with the OPA s financial assurance and other operating requirements will not have a material impact on our operations or financial condition.

*Water Discharges.* The Federal Water Pollution Control Act of 1972, (the Clean Water Act ), imposes restrictions and controls on the discharge of produced waters and other oil and gas pollutants into navigable waters. These controls have become more stringent over the years, and it is possible that additional restrictions may be imposed in the future. Permits must be obtained to discharge pollutants into state and federal waters. Certain state regulations and the general permits issued under the Federal National Pollutant

**Table of Contents**

Discharge Elimination System ( NPDES ) program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the oil and gas industry into certain coastal and offshore water. The Clean Water Act provides for civil, criminal and administrative penalties for unauthorized discharges of oil and other pollutants, and imposes liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. Comparable state statutes impose liabilities and authorize penalties in the case of an unauthorized discharge of petroleum or its derivatives, or other pollutants, into state waters.

In furtherance of the Clean Water Act, the EPA promulgated the Spill Prevention, Control, and Countermeasure, or SPCC, regulations, which require facilities that possess certain threshold quantities of oil that could impact navigable waters or adjoining shorelines to prepare SPCC plans and meet specified construction and operating standards. The SPCC regulations were revised in 2002 and required the amendment of SPCC plans before February 18, 2006, if necessary, and requires compliance with the implementation of such amended plans by August 18, 2006. We may be required to prepare SPCC plans for some of our facilities where a spill or release of oil could reach or impact jurisdictional waters of the U.S.

*Air Emissions.* The Federal Clean Air Act, and associated state laws and regulations, restrict the emission of air pollutants from many sources, including oil and natural gas operations. New facilities may be required to obtain permits before operations can commence, and existing facilities may be required to obtain additional permits and incur capital costs in order to remain in compliance. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the Clean Air Act and associated state laws and regulations. We believe that compliance with the Clean Air Act and analogous state laws and regulations will not have a material impact on our operations or financial condition.

*Waste Handling.* The Resource Conservation and Recovery Act ( RCRA ) and analogous state and local laws and regulations govern the management of wastes, including the treatment, storage and disposal of hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either a generator or transporter of hazardous waste or an owner or operator of a hazardous waste treatment, storage or disposal facility. RCRA specifically excludes from the definition of hazardous waste drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil and natural gas. A similar exemption is contained in many of the state counterparts to RCRA. As a result, we are not required to comply with a substantial portion of RCRA s requirements because our operations generate minimal quantities of hazardous wastes. However, these wastes may be regulated by EPA or state agencies as solid waste. In addition, ordinary industrial wastes, such as paint wastes, waste solvents, laboratory wastes, and waste compressor oils, may be regulated under RCRA as hazardous waste. We do not believe the current costs of managing our wastes, as they are presently classified, to be significant. However, any repeal or modification of the oil and natural gas exploration and production exemption, or modifications of similar exemptions in analogous state statutes, would increase the volume of hazardous waste we are required to manage and dispose of and would cause us, as well as our competitors, to incur increased operating expenses.

**Employees**

As of January 20 2006, we had 80 full-time employees. Our employees are not represented by any labor unions. We consider relations with our employees to be satisfactory. We have never experienced a work stoppage or strike.

**Legal Proceedings**

Mariner operates numerous properties in the Gulf of Mexico. Two of these properties were leased from the MMS subject to the RRA. The RRA relieved the obligation to pay royalties on certain predetermined leases until a designated volume is produced. These two leases contained language that limited royalty relief if commodity prices exceeded predetermined levels. In 2000, 2001, 2003 and 2004 commodity prices exceeded the predetermined levels. Management believes the MMS did not have the authority to set pricing limits and we filed an administrative appeal contesting the MMS order and have withheld royalties regarding this

**Table of Contents**

matter. The MMS filed a motion to dismiss our appeal with the Board of Land Appeals of the Department of the Interior. On April 6, 2005, the Board of Land Appeals granted MMS' motion and dismissed our appeal. On October 3, 2005, we filed suit in the U.S. District Court for the Southern District of Texas seeking judicial review of the dismissal of our appeal by the Board of Land Appeals. Mariner has recorded a liability for 100% of the potential exposure on this matter, which on September 30, 2005 was \$14.6 million.

**Legal Matters**

In addition to the foregoing, by letter dated December 2, 2005, the MMS notified Mariner that 2004 commodity prices exceeded the predetermined levels and, accordingly, that royalties were due on natural gas and oil produced in calendar year 2004 from federal offshore leases with confirmed royalty suspension volumes as defined by the RRA. On December 29, 2005, Mariner filed a notice of intent to appeal this royalty demand from the MMS. Mariner has paid royalties on calendar year 2004 production from federal offshore leases in which it owns an interest except for 2004 production from Ewing Bank 966 and Garden Banks 367, being the two leases at issue in the lawsuit discussed above.

In the ordinary course of business, we are a claimant and/or a defendant in various legal proceedings, including proceedings as to which we have insurance coverage, in which the exposure, individually and in the aggregate, is not considered material to us.

**Insurance Matters**

In September 2004, we incurred damage from Hurricane Ivan that affected our Mississippi Canyon 66 (Ochre) and Mississippi Canyon 357 fields. Production from Mississippi Canyon 357 was shut-in until March 2005, when necessary repairs were completed and production recommenced. Production from Ochre is currently shut-in awaiting rerouting of umbilical and flow lines to another host platform. Prior to Hurricane Ivan, this field was producing at a net rate of approximately 6.5 MMcf per day. Production from Ochre is expected to recommence by the end of the first quarter of 2006. In addition, a semi-submersible rig on location at Mariner's Viosca Knoll 917 (Swordfish) field was blown off location by the hurricane and incurred damage. Until we are able to complete all the repair work and submit costs to the insurance underwriters for review, the full extent of our insurance recovery and the resulting net cost to Mariner is unknown. For the insurance period ending September 30, 2004, we carried an annual deductible of \$1.25 million and a single occurrence deductible of \$.375 million.

In August 2005 and September 2005, Mariner incurred damage from Hurricanes Katrina and Rita that affected several of its offshore fields. Hurricane Katrina caused minor damage to our owned platforms and facilities. Production that was shut-in by the hurricane was recommenced within three weeks of the hurricane, with the exception of two minor non-operated fields. However, Hurricane Katrina inflicted damage to host facilities for our Pluto, Rigel and Ochre projects that has delayed start-up of these projects until 2006. Hurricane Rita caused minor damage to our owned platforms and some damage to certain host facilities of our development projects. Production shut-in as a result of Hurricane Rita fully recommenced within three weeks of the hurricane, with the exception of our Baccarat field.

Until we are able to complete all the repair work and submit costs to our insurance underwriters for review, the full extent of our insurance recovery and the resulting net cost to us for Hurricanes Katrina and Rita will be unknown. For the insurance period ending September 30, 2005, we carried a \$3.0 million annual deductible and a \$.375 million single occurrence deductible.

**Enron Related Matters**

In 1996, JEDI, an indirect wholly owned subsidiary of Enron Corp., acquired approximately 96% of Mariner Energy LLC, which at the time of acquisition indirectly owned 100% of Mariner Energy, Inc. After JEDI acquired us, we continued our prior business as an independent oil and natural gas exploration, development and production company. In 2001, Enron Corp. and certain of its subsidiaries (excluding JEDI) became debtors in Chapter 11 bankruptcy proceedings. Mariner Energy, Inc. was not one of the debtors in those proceedings. While the bankruptcy proceedings were ongoing, we continued to operate our business as an indirect subsidiary of JEDI. We remained an indirect subsidiary of JEDI until March of 2004 when our



**Table of Contents**

former indirect parent company, Mariner Energy LLC, merged with an affiliate of the private equity funds Carlyle/Riverstone Global Energy and Power Fund II, L.P. and ACON Investments LLC. In the merger, all the shares of common stock in Mariner Energy LLC were converted into the right to receive cash and certain other consideration. As a result, since March 2004, JEDI no longer owns any direct or indirect interest in Mariner, and we are no longer affiliated with JEDI or Enron Corp. Also in connection with the merger, warrants to purchase common stock of Mariner Energy LLC that were held by another Enron Corp. affiliate were exercised and the holders received their pro rata portion of the merger consideration, and a term loan owed by Mariner Energy LLC to the same Enron Corp. affiliate was repaid in full.

Prior to the merger, we filed two proofs of claim in the Enron Corp. bankruptcy proceedings. These claims, aggregating \$10.7 million, were for unpaid amounts owed to us by Enron Corp. subsidiaries under the terms of various physical commodity contracts and hedging contracts entered into prior to the Enron Corp. bankruptcy filing. We assigned these claims to JEDI as part of the merger consideration payable to JEDI under the terms of the merger agreement. Thus, as of this date, we have no claims pending in the Enron Corp. bankruptcy proceedings.

As part of the merger consideration payable to JEDI, we also issued a term promissory note to JEDI in the amount of \$10 million. The note matures on March 2, 2006, and bears interest, paid in kind, at a rate of 10% per annum until March 2, 2005, and 12% per annum thereafter unless paid in cash in which event the rate remains at 10% per annum. The JEDI promissory note is secured by a lien on three of our properties located in the Outer Continental Shelf of the Gulf of Mexico. We can offset against the note the amount of certain claims for indemnification that can be asserted against JEDI under the terms of the merger agreement. We used a portion of proceeds from the common stock we sold in our March 2005 private equity placement to repay \$6 million of the JEDI Note.

Under the merger agreement, JEDI and the other former stockholders of our parent company were entitled to receive on or before February 28, 2005, additional contingent merger consideration based upon the results of a five-well drilling program. In September 2004, we prepaid, with a 10% prepayment discount, approximately \$161,000 as the additional contingent merger consideration due with respect to the program.

**Table of Contents**

**SELECTED CONSOLIDATED STATEMENTS OF REVENUES AND  
DIRECT OPERATING EXPENSES OF THE FOREST GULF OF MEXICO OPERATIONS**

The selected consolidated statements of revenues and direct operating expenses for the Forest Gulf of Mexico operations for the nine months ended September 30, 2005 and 2004 and the years ended December 31, 2004, 2003 and 2002 were derived from the historical records of Forest. For additional information concerning this financial data, see Management's Discussion and Analysis of Financial Condition and Results of Operations of the Forest Gulf of Mexico Operations. Complete financial and operating information related to the Forest Gulf of Mexico operations, including balance sheet and cash flow information, are not presented below because the Forest Gulf of Mexico operations were not maintained as a separate business unit, and therefore the assets, liabilities or indirect operating costs applicable to the operations were not segregated.

	<b>Nine Months Ended September 30,</b>		<b>Years Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Dollars in thousands)</b>				
Oil and natural gas revenues(1)	\$ 326,722	324,426	453,139	342,019	228,896
Direct Operating Expenses:					
Lease operating expenses	57,431	63,022	80,079	45,716	52,076
Transportation	2,484	1,424	2,175	2,652	3,855
Production taxes	1,948	1,243	1,548	1,521	947
Total direct operating expenses	61,863	65,689	83,802	49,889	56,878
Revenues in excess of direct operating expenses	\$ 264,859	258,737	369,337	292,130	172,018
Production:					
Natural gas (MMcf)	41,442	46,036	61,684	58,785	50,566
Oil and condensate (MBbls)	1,845	2,004	2,624	2,143	1,974
Natural gas liquids (MBbls)	628	186	606	2	6
Total (MMcfe)	56,280	59,176	81,064	71,655	62,446
Average daily production (MMcfe/d)	206	216	221	196	171
Per Mcfe:					
Average realized sales price(1)	\$ 5.81	5.48	5.59	4.77	3.67
Lease operating expenses	\$ 1.02	1.06	0.99	0.64	0.83
Transportation	\$ 0.04	0.02	0.03	0.04	0.06
Production taxes	\$ 0.03	0.02	0.02	0.02	0.02

(1) Includes effects of hedging.



**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE FOREST GULF OF MEXICO OPERATIONS****Overview**

The accompanying historical statements of revenues and direct operating expenses are presented using accrual basis, full cost accounting and relate to Forest's interests in certain producing oil and gas properties located offshore in the Gulf of Mexico. These historical statements may not be representative of future operations. The historical statements were prepared from the historical accounting records of Forest. The historical statements do not include Federal and state income taxes, interest expenses, depletion, depreciation and amortization, accretion, or general and administrative expenses. The historical statements include oil and natural gas revenues and direct lease operating and production expenses, including transportation and production taxes, for all the periods presented.

Complete financial statements, including a balance sheet, are not presented. The Forest Gulf of Mexico operations were not maintained as a separate business unit within Forest, and assets, liabilities or indirect operating costs applicable to the Forest Gulf of Mexico operations were not segregated. Accordingly, it was not practicable to identify all assets, liabilities or indirect operating costs applicable to the Forest Gulf of Mexico operations.

**Recent Developments*****Hurricane Impact***

Forest's Gulf of Mexico operations were adversely affected by one of the most active hurricane seasons in recorded history. During the third quarter of 2005, Forest estimates that 6 Bcfe of total available production was shut-in and deferred until later dates as a result of Hurricanes Katrina and Rita. As of October 31, 2005, approximately 100 to 110 MMcfe per day remained shut-in. Accordingly, production from the Forest Gulf of Mexico operations will be negatively impacted in the fourth quarter as well. Forest estimates that 9 Bcfe of total available production will remain shut-in and deferred in the fourth quarter of 2005.

Forest carries property and casualty insurance to insure against property damages such as those caused by hurricanes. The insurance has a \$5 million deductible for each occurrence. Forest's estimated uninsured liability for the repair of its facilities damaged by hurricanes in the third quarter of 2005 will be \$10 million, the majority of which will be incurred in the fourth quarter of 2005 as the related repairs are made. Forest's insurance does not insure against losses or deferrals of production caused by shut-in production.

**Nine Months Ended September 30, 2005 Highlights**

Revenues in excess of direct operating expenses of \$264.9 million for the nine months ended September 30, 2005 were 2% higher than revenues in excess of direct operating expenses of \$258.7 million for the same period in 2004. The period-over-period revenues in excess of direct operating expenses were primarily driven by the following factors:

Sales volumes decreased 5% to 56.3 Bcfe in the nine months ended September 30, 2005 from 59.2 Bcfe in 2004.

Average realized prices increased 6% to \$5.81 per Mcfe in 2005 from \$5.48 per Mcfe in 2004.

Higher realized prices partially offset by decreased sales volumes resulted in oil and natural gas revenues increasing 1% to \$326.7 million in the nine months ended September 30, 2005 from \$324.4 million in the corresponding period in 2004.

Lease operating expense declined 4% from \$1.06 per Mcfe for 2004 to \$1.02 per Mcfe for 2005.

***Production***

Production from the Forest Gulf of Mexico operations for the nine months ended September 30, 2005 averaged approximately 152 MMcf of natural gas per day and approximately 9,000 barrels of oil per day or

**Table of Contents**

total equivalents of approximately 206 MMcfe per day. Natural gas production comprised approximately 74% of the total production.

Historically, a majority of the production from the Forest Gulf of Mexico operations has been comprised of natural gas, and the concentration of natural gas production is expected to continue. As a result, the revenues, profitability and cash flows of the Forest Gulf of Mexico operations will be more sensitive to natural gas prices than to oil and condensate prices.

***Oil and Gas Property Costs***

In the nine months ended September 30, 2005, \$104.7 million in capital expenditures were made with respect to the Forest Gulf of Mexico operations, with 55% and 45% related to development activities and exploration activities, respectively. The exploration activities consisted of drilling and completion of new wells in the Brazos, South Marsh Island, South Timbalier, Vermillion and West Cameron fields. The development activities consisted of development drilling and recompletions in the Eugene Island, South Timbalier and West Cameron fields.

During 2004, \$185.5 million in capital expenditures were made with respect to the Forest Gulf of Mexico properties, including \$28.3 million in exploration activities, \$70.0 million in development activities, and \$87.2 million in acquisitions. The exploration activities primarily were related to drilling and completion of new wells in the High Island, Main Pass and Vermillion fields. The development activities primarily were related to recompletions, drilling and completion of development wells, as well as installation of production facilities in the West Cameron field and in the Eugene Island, High Island, Ship Shoal, South Marsh Island and West Cameron fields. The \$87.2 million in acquisition costs related primarily to the offshore Gulf of Mexico properties acquired in connection with Forest's acquisition of the Wisser Oil Company in June 2004 and the acquisition of BP's interest in the Vermillion 14 field in the fourth quarter of 2004.

***Oil and Gas Reserves***

Estimated net proved reserves related to the Forest Gulf of Mexico operations have been maintained between approximately 330 Bcfe to 370 Bcfe from 2002 through 2004 primarily through acquisition activities. During the same time period, a total of 215 Bcfe was produced. Approximately 140 Bcfe of estimated proved reserves were acquired from 2001 to 2004 and were augmented by additions from exploration and development activities of approximately 53 Bcfe during the same period. As of December 31, 2004, estimated net proved reserves related to the Forest Gulf of Mexico operations were approximately 340 Bcfe, with a PV10 of approximately \$1.2 billion and a standardized measure of discounted future net cash flows attributable to estimated proved reserves of approximately \$925.8 million. Please see *The Forest Gulf of Mexico Operations - Estimated Proved Reserves* for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows. See *The Forest Gulf of Mexico Operations - Estimated Proved Reserves* for more information concerning the net reserve estimates for the Forest Gulf of Mexico operations.

***Oil and Natural Gas Prices and Hedging Activities***

Prices for oil and natural gas can fluctuate widely, thereby affecting the amount of cash flow generated from the Forest Gulf of Mexico operations which is available to cover operating costs and capital expenditures, and the amount of oil and natural gas that can be economically produced. Recently, oil and natural gas prices have been at or near historical highs and very volatile as a result of various factors, including weather, industrial demand, war and political instability and uncertainty related to the ability of the energy industry to provide supply to meet future demand.

The revenues, profitability and future growth of the Forest Gulf of Mexico operations depend substantially on prevailing prices for oil and gas and the ability to find, exploit and develop oil and gas reserves that are economically recoverable while controlling and reducing costs. A substantial or extended decline in oil and natural gas prices or poor drilling results could have a material adverse effect on the results of operations and quantities of oil and natural gas reserves that can economically be produced.

**Table of Contents**

Hedging arrangements have been utilized from time to time to reduce exposure to fluctuations in oil and natural gas prices. Historically, the hedging strategy has involved entering into commodity price swaps and costless collars with third parties. Price swaps establish a fixed price and an index-related price for the covered commodity. When the index-related price exceeds the fixed price, the third party is paid the difference, and when the fixed price exceeds the index-related prices, the third party pays the difference. Costless collars establish fixed cap (maximum) and floor (minimum) prices as well as an index-related price for the covered commodity. When the index-related price exceeds the fixed cap price, the third party is paid the difference, and when the index-related price is less than the fixed floor price, the third party pays the difference. While hedging arrangements provide a more predictable cash flow, they also limit the benefits of increased prices. As a result of increased oil and natural gas prices throughout 2004 and 2005, hedging losses totaling \$57.1 million were incurred during the year ended December 31, 2004 and \$83.8 million during the nine months ended September 30, 2005.

The following table sets forth information regarding the commodity swap agreements that will be transferred to Forest Energy Resources in the spin-off. The fair value of the commodity swaps based on the futures prices quoted on September 30, 2005 was a liability of approximately \$125.2 million.

	<b>Natural Gas (NYMEX HH)</b>	
	<b>Bbtu per Day</b>	<b>Weighted Average Hedged Price per MMBtu</b>
Fourth Quarter 2005	55.0	\$ 4.88
First Quarter 2006	40.0	6.15
Second Quarter 2006	40.0	6.15
Third Quarter 2006	40.0	6.15
Fourth Quarter 2006	40.0	6.15

**Results of Operations**

For certain information with respect to oil and natural gas production, average sales price received and expenses per unit of production related to the Forest Gulf of Mexico operations for the nine months ended September 30, 2005 and 2004 and the three years ended December 31, 2004, see Selected Consolidated Statements of Revenues and Direct Operating Expenses of the Forest Gulf of Mexico Operations beginning on page 144.

***Nine Months Ended September 30, 2005 compared to Nine Months Ended September 30, 2004***

*Net production* during the nine months ended September 30, 2005 decreased approximately 5% to 56.3 Bcfe from 59.2 Bcfe in the same period of 2004. The decrease in production volumes was primarily attributable to approximately 6 Bcfe of production shut-in during the third quarter of 2005 due to hurricanes in the Gulf of Mexico partially offset by offshore oil and gas properties purchased in connection with Forest's acquisition of Wisser in June of 2004 and deep shelf discoveries in 2004.

*Oil and natural gas revenues* increased 1% to \$326.7 million for the nine months ended September 30, 2005 from \$324.4 million in the corresponding period of 2004. The increase in oil and natural gas revenues was due to a 6% increase in average sales price received per Mcfe from \$5.48 in 2004 to \$5.81 in 2005 partially offset by the 5% decrease in production.

*Hedging activities* in the first nine months of 2005 decreased the average realized natural gas price received by \$1.13 per Mcf and revenues by \$47.0 million, compared with a decrease of \$0.45 per Mcf and revenues of \$20.9 million for the same period in 2004. The hedging activities with respect to crude oil during the first nine months of 2005 decreased the average sales price received by \$19.95 per barrel and revenues by \$36.8 million, compared with a decrease of \$6.61 per barrel and revenues of \$13.2 million for the same period in 2004.



**Table of Contents**

*Lease operating expenses ( LOE )* decreased 9% from \$63.0 million in the first nine months of 2004 to \$57.4 million in the first nine months of 2005. On a per-Mcfe basis, LOE decreased 4% from \$1.06 in 2004 to \$1.02 in 2005. The reduced costs were primarily attributable to cost control efforts implemented in the third quarter of 2004, specifically focusing on helicopter, boat and crane charges, as well as catering and paramedic charges.

*Transportation expenses* were \$2.5 million or \$0.04 per Mcfe for the nine months ended September 30, 2005, compared to \$1.4 million or \$0.02 per Mcfe in the first nine months of 2004. The increase in transportation expenses in total and on a per unit of production basis is attributable to a large discovery which had initial production in June 2004 and had higher-than-average transportation costs. In addition, beginning in 2005, equity gas production is being used and transported to processing plants for the replacement of plant thermal reduction in lieu of buying third party gas, as had been done through 2004.

*Production taxes* were \$1.9 million or \$0.03 per Mcfe for the nine months ended September 30, 2005, compared to \$1.2 million or \$0.02 per Mcfe in the first quarter of 2004. The increase was primarily attributable to the increase in the average realized prices of oil and natural gas before hedging losses.

***Year Ended December 31, 2004 compared to Year Ended December 31, 2003***

*Net production* for 2004 increased approximately 13% to 81.1 Bcfe from 71.7 Bcfe in 2003, primarily due the acquisition of additional offshore oil and gas properties in late 2003 and during 2004, exploration of these properties and deep shelf discoveries.

*Oil and natural gas revenues* increased 32% to \$453.1 million for 2004 from \$342.0 million in 2003. The increase in oil and natural gas revenues was due to a 17% increase in average sales price received per Mcfe, from \$4.77 in 2003 to \$5.59 in 2004, and a 13% increase in production.

*Hedging activities* in 2004 decreased the average realized natural gas price received by \$0.56 per Mcf and revenues by \$34.6 million, compared with a decrease of \$0.63 per Mcf and revenues of \$36.8 million for 2003. The hedging activities with respect to crude oil during 2004 decreased the average sales price received by \$8.55 per barrel and revenues by \$22.4 million, compared with a decrease of \$1.90 per barrel and revenues of \$4.1 million for 2003.

*Lease operating expenses* were \$80.1 million in 2004 and \$45.7 million in 2003. On a per-Mcfe basis, LOE increased 55% from \$0.64 in 2003 to \$0.99 in 2004. The increase was primarily attributable to properties purchased in late 2003 and during 2004. These properties had higher initial LOE due primarily to deferred maintenance of the properties at the time of acquisition.

*Transportation expenses* were \$2.2 million or \$0.03 per Mcfe for 2004, compared to \$2.7 million or \$0.04 per Mcfe in 2003.

*Production taxes* were comparable at \$1.5 million or \$0.02 per Mcfe for 2004 and \$1.5 million or \$0.02 per Mcfe in 2003, despite higher average realized oil and natural gas prices on a per Mcfe basis, due to a change in the mix of offshore production subject to production taxes.

***Year Ended December 31, 2003 Compared to Year Ended December 31, 2002***

*Net production* for 2003 increased approximately 15% to 71.7 Bcfe from 62.4 Bcfe for 2002, primarily due the acquisition of offshore oil and gas properties in late 2003.

*Oil and natural gas revenues* increased 49% to \$342.0 million for 2003 from \$228.9 million in 2002. The increase in oil and natural gas revenues was due to a 30% increase in average sales price received per Mcfe from \$3.67 in 2002 to \$4.77 in 2003, and a 15% increase in production.

*Hedging activities* in 2003 decreased the average realized natural gas price received by \$0.63 per Mcf and revenues by \$36.8 million, compared with an increase of \$0.17 per Mcf and revenues of \$8.4 million for the same period in 2002. The hedging activities with respect to crude oil during 2003 decreased the average sales

**Table of Contents**

price received by \$1.90 per barrel and revenues by \$4.1 million. There was no hedge activity with respect to crude oil during 2002.

*Lease operating expenses* were \$45.7 million in 2003 and \$52.1 million in 2002. On a per-Mcfe basis, LOE decreased 23%, from \$0.83 in 2002 to \$0.64 in 2003. The reduced costs were primarily attributable to less workover costs and hurricane repairs in 2003 compared to 2002.

*Transportation expenses* were \$2.7 million or \$0.04 per Mcfe for 2003, compared to \$3.9 million or \$0.06 per Mcfe in 2002. The change is primarily due to improvements in marketing arrangements and cost control.

*Production taxes* were \$1.5 million and \$0.9 million for 2003 and 2002, respectively. Production taxes were \$0.02 per Mcfe for each period.

**Capital Expenditures**

Expenditures for property acquisitions, exploration, and development related to the Forest Gulf of Mexico operations were as follows:

	Nine Months Ended September 30,		Years Ended December 31,		
	2005	2004	2004	2003	2002
Property acquisitions	\$ 25	85,546	87,165	168,485	3,263
Exploration	47,418	23,261	28,331	39,683	17,503
Development	57,248	57,145	70,027	74,690	70,833
Total Capital Expenditures	\$ 104,691	165,952	185,523	282,858	91,599

**Table of Contents****THE FOREST GULF OF MEXICO OPERATIONS**

As of December 1, 2005, Forest has transferred and contributed the assets and certain liabilities associated with the Forest Gulf of Mexico operations to Forest Energy Resources. The following discussion describes the Forest Gulf of Mexico operations that Forest has contributed to Forest Energy Resources, and does not reflect Mariner's business integration plans after the merger.

As of December 31, 2004, the Forest Gulf of Mexico operations included estimated proved reserves of 339.7 Bcfe, of which approximately 79% were natural gas and 21% were liquids. Approximately 76% of these estimated proved reserves were classified as proved developed as of December 31, 2004. For the year ended December 31, 2004, the Forest Gulf of Mexico operations had production of 81.1 Bcfe, or an average of 221 MMcfe per day. During 2004, capital expenditures for exploration and development and property acquisitions associated with the Forest Gulf of Mexico operations totaled \$185.5 million.

The following discussion includes statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. See Cautionary Statement Concerning Forward-Looking Statements for more details. Also, the discussion uses terms that pertain to the oil and gas industry, and you should see Glossary of Oil and Natural Gas Terms for the definition of certain terms.

**Significant Properties**

The oil and gas properties, including producing and non-producing properties, that are included in the Forest Gulf of Mexico operations are located primarily in federal waters. Based on the present value of estimated future net proved reserves as of December 31, 2004, the largest offshore Gulf of Mexico properties include the following:

Gulf of Mexico Shelf:	Operator	Working Interest	Approximate		Date Production Commenced/Expected	Estimated Proved Reserves (Bcfe)(b)	PV10 Value (In \$ Millions)(b)	Standardized Measure (In \$ Millions)
			Water Depth (Feet)	Gross Producing Wells(a)				
East Cameron 14	FOC	50.0	25	2	1969	17.2	\$ 81.0	
Eugene Island 273	FOC	77.7	175	7	1970	5.4	27.9	
Eugene Island 292	FOC	45.0	195	4	1970	8.5	39.0	
Eugene Island 53	FOC	50.0(c)	40	5	1964	12.6	68.9	
High Island 116	FOC	98.9(d)	45	2	1986	10.2	44.9	
High Island 195	Apache	23.5	50	6	1989	3.8	20.9	
Main Pass 166	FOC	100.0	125	0	2006	5.1	18.0	
Ship Shoal 26	FOC	100.0	10	1	1969	5.5	24.6	
South Marsh Isl 149	Unocal	50.0	150	4	1979	5.5	31.7	

Edgar Filing: MARINER ENERGY INC - Form S-4/A

South Marsh Isl 18	FOC	100.0	75	1	1993	9.8	32.7
South Pass 24 NCOC	FOC	100.0	10	37	1957	22.8	73.7
South Timbalier 72	FOC	100.0(e)	65	4	1963	6.8	39.1
Vermilion 14	FOC	100.0	20	21	1959	35.4	129.4
Vermilion 380	FOC	100.0	320	3	1982	11.5	40.7
West Cameron 110	BP/Amoco	37.5	40	1	1958	7.7	36.8
West Cameron 112	FOC	55%	43	1	2004	3.7	22.8
West Cameron 205	FOC	100.0	50	3	1982	5.9	30.0
Other Properties				871		146.1	392.3
<b>Gulf of Mexico Deepwater:</b>							
East Breaks 420	Samedan	50.0	2,560	1	2002	16.2	67.8
<b>Total:</b>				974		339.7	\$ 1,222.2 \$ 925.8



**Table of Contents**

- (a) Wells producing or capable of producing as of December 31, 2004.
- (b) As of December 31, 2004. Please see *The Forest Gulf of Mexico Operations Estimated Proved Reserves* for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows.
- (c) Forest operates the field and owns working interests in individual wells ranging from approximately 50% to 100%.
- (d) Forest operates the field and owns working interests in individual wells ranging from approximately 98.9% to 100%.
- (e) Forest operates the field and owns working interests in individual wells ranging from approximately 37.5% to 100%.

***Gulf of Mexico Shelf Properties***

*East Cameron 14.* Forest acquired a 50% working interest in this property through Forest's acquisition of Forcenergy Inc in 2000. This property is located in approximately 25 feet of water, approximately 30 miles southeast of Cameron, Louisiana.

*Eugene Island 273.* This is a legacy Forest property installed in 1970 in approximately 175 feet of water, approximately 142 miles southeast of Cameron, Louisiana. Forest owns a 77.7% working interest in this field. Redevelopment of this property occurred in 2004 with the installation of a new platform.

*Eugene Island 292.* This is a legacy Forest property installed in 1967, with first production commencing in 1970. Forest owns a 45% working interest in this field. The property consists of a hub for the complex including six platforms. The property is located in approximately 195 feet of water, approximately 140 miles southeast of Cameron, Louisiana.

*Eugene Island 53.* Forest acquired the shallow rights to this property in 1993 from Sandefer Offshore Operating. Subsequently, Forest acquired the deep rights from Pennzoil in 1995 and 1997. Forest owns between 50% and 100% working interests in various wells in the field. The property is located in approximately 40 feet of water, approximately 111 miles southeast of Cameron, Louisiana.

*High Island 116.* Forest acquired this property in 1993 from Arco. Forest farmed out a prospect to Zilkha Energy in 1996, subsequently acquiring 44% of Zilkha's working interest and participating in the drilling of the discovery well in deeper horizons as a 44% working interest owner. In 2000 Forest purchased the remaining working interests in this property and now owns a 100% working interest. The property is located in approximately 45 feet of water, approximately 49 miles southwest of Cameron, Louisiana.

*High Island 195.* Forest acquired its 23.5% working interest in this property, operated by Apache, through its acquisition of Forcenergy Inc in 2000. The property is located in approximately 50 feet of water, approximately 66 miles southwest of Cameron, Louisiana.

*Main Pass 166.* Forest acquired this property in an Outer Continental Shelf Lease Sale in 2004. The property was acquired to drill a well to exploit bypassed pay in the 2,800-foot and 3,600-foot sands. Forest owns a 100% working interest in this property, which is located approximately 96 miles southeast of New Orleans, Louisiana.

*Ship Shoal 26.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest owns a 100% working interest in the property. The property is located in approximately 10 feet of water, approximately 97 miles southwest of New Orleans, Louisiana.

*South Marsh Island 149.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest subsequently sold a 50% working interest in the property to Unocal in 2001. This property is located in approximately 150 feet of water, approximately 130 miles southeast of Cameron, Louisiana.

*South Marsh Island 18.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest subsequently sold a 50% working interest in the property to Unocal in 2001. As part of an acquisition of



**Table of Contents**

properties from Union Oil of California (Unocal) in 2003, Forest repurchased Unocal's 50% working interest, and Forest currently holds a 100% working interest. The property is located in approximately 75 feet of water, approximately 101 miles southeast of Cameron, Louisiana.

*South Pass 24 NCOC.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest acquired the remaining working interest (approximately 25%) from Pogo in 2004. The property is located approximately 82 miles south of New Orleans, Louisiana in approximately 10 feet of water.

*South Timbalier 72.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Redevelopment occurred in 2003, 2004 and 2005. Forest operates the property and owns working interests in individual wells ranging from 75% to 100%. The property is located in approximately 65 feet of water, approximately 100 miles southwest of New Orleans, Louisiana.

*Vermillion 14.* Forest acquired a 50% working interest in this property from Unocal in 2003. In 2004, Forest acquired BP's 50% working interest and now owns a 100% working interest. The property is located in approximately 20 feet of water, approximately 63 miles southeast of New Orleans, Louisiana.

*Vermillion 380.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest subsequently sold a 50% working interest to Unocal in 2001. As part of the Unocal acquisition in 2003, Forest repurchased Unocal's 50% working interest. Forest operates the property and owns working interests in the individual wells ranging from approximately 55% to 100%. The property is located in approximately 320 feet of water, approximately 135 miles southeast of Cameron, Louisiana.

*West Cameron 110.* Forest acquired a 37.5% working interest in this property through its acquisition of Forcenergy Inc in 2000. BP operates the property. The property is located in approximately 320 feet of water, approximately 21 miles south of Cameron, Louisiana.

*West Cameron 112.* Forest acquired this property through the acquisition of Forcenergy Inc in 2000. Forest initially held a 100% working interest in the property and sold a portion of its working interest in 2003 and, as a result, Forest owns a 55% working interest. The property is located in approximately 40 feet of water, approximately 45 miles southeast of Cameron, Louisiana.

*West Cameron 205.* Forest acquired this property through its acquisition of Forcenergy Inc in 2000. Forest owns a 100% working interest in the property, which is located in approximately 50 feet of water, approximately 36 miles south of Cameron, Louisiana.

***Gulf of Mexico Deepwater Property***

*East Breaks 420.* Forest leased three blocks located on this property in 1996, and an additional block in 1998. Forest subsequently sold a 50% working interest to Noble. The property is located in approximately 2,560 feet of water, approximately 174 miles southwest of Cameron, Louisiana.

**Estimated Proved Reserves**

The following tables set forth certain information with respect to the estimated proved reserves attributable to the Forest Gulf of Mexico operations as of December 31, 2004. Reserve volumes and values were estimated using the method prescribed by the SEC which requires the application of period-end prices and costs held constant throughout the projected reserve life. The reserve information as of December 31, 2004 is based on reserve estimates prepared by the internal staff of engineers at Forest. A substantial portion of Forest's reserves are audited by independent petroleum engineers engaged by Forest. These reserve audits are conducted in accordance with Forest's reserve audit procedures that require the independent reserve engineers to prepare their own independent estimates of proved reserves for fields comprising at least 80% of Forest's year-end PV10 value of the fields, and a minimum of 80% of the PV10 value of the reserves added during the year through discoveries, extensions, and acquisitions. Forest may also include fields that fall outside of the top 80% of the PV10 value that represent material volumes of proved reserves, have experienced material revisions to prior estimates of proved reserve volumes or value, or have experienced changes as a result of new operational activity. Forest's procedures prohibit exclusions of any fields, or any part of a field, that comprises

**Table of Contents**

part of the top 80% of the PV10 value. The independent reserve engineers then compare their estimates to those prepared by Forest. The independent reserve audits prepared for Forest are not financial audits and are not performed in accordance with the established generally accepted financial audit procedures. Instead, a reserve audit is conducted based on rules and regulations, reserve definitions and costs, and price parameters specified by the SEC.

For the year-end 2004, Forest engaged two independent petroleum engineering firms to perform reserve audit services for the properties included in the Forest Gulf of Mexico operations. Ryder Scott Company and DeGolyer and MacNaughton audited the estimates of reserves attributable to properties included in the Forest Gulf of Mexico operations. When compared on a field-by-field basis, some of Forest's estimates of net proved reserves are greater and some are less than the estimates prepared by Forest's independent petroleum engineers. However, there was no material difference, in the aggregate, between Forest's internal estimates of total net proved reserves and the estimates prepared by the independent petroleum engineers.

**Estimated Proved  
Reserve Quantities**

Geographic Area	Oil (MMbbls)	Natural Gas (Bcf)	Total (Bcfe)	PV10 Value(3)		Standardized Measure  (Millions)
				Developed	Undeveloped	
Gulf of Mexico Shelf(1)	11.7	253.6	323.5	\$ 907.8	\$ 246.6	\$ 1,154.4
Gulf of Mexico Deepwater(2)		16.2	16.2	67.8		67.8
<b>Total</b>	11.7	269.8	339.7	\$ 975.6	\$ 246.6	\$ 1,222.2
Proved Developed Reserves	9.5	201.8	258.6			

(1) Shelf refers to water depths less than 1,300 feet.

(2) Deepwater refers to water depths greater than 1,300 feet (the approximate depth of deepwater designated for royalty purposes by the U.S. Minerals Management Service).

(3) Please see below for a definition of PV10 and a reconciliation of PV10 to the standardized measure of discounted future net cash flows.

Uncertainties are inherent in estimating quantities of proved reserves, including many factors beyond the control of Forest. Reserve engineering is a subjective process of estimating subsurface accumulations of oil and gas that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and the interpretation thereof. As a result, estimates by different engineers often vary, sometimes significantly. In addition, physical factors such as the results of drilling, testing, and production subsequent to the date of an estimate, as well as economic factors such as change in product prices, may require revision of such estimates. Accordingly, oil and gas quantities ultimately recovered will vary from reserve estimates.

PV10 is an estimated present value of future net revenues from proved reserves before income taxes. PV10 may be considered a non-GAAP financial measure under SEC regulations because it does not include the effects of future income taxes, as is required in computing the standardized measure of discounted future net cash flows. Forest and

Forest Energy Resources believe PV10 to be an important measure for evaluating the relative significance of the natural gas and oil properties included in the Forest Gulf of Mexico operations and that PV10 is widely used by professional analysts and investors in evaluating oil and gas companies. Because many factors that are unique to each individual company impact the amount of future income taxes to be paid, the use of a pre-tax measure provides greater comparability of assets when evaluating companies. Forest and Forest Energy Resources believe that most other companies in the oil and gas industry calculate PV10 on the same basis. The management of Forest and Forest Energy Resources also use PV10 in evaluating acquisition candidates.

**Table of Contents**

PV10 is computed on the same basis as the standardized measure of discounted future net cash flows but without deducting income taxes. The table below provides a reconciliation of PV10 to the standardized measure of discounted future net cash flows.

	<b>At December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>(Millions)</b>		
PV10	\$ 1,222.2	\$ 1,217.2	\$ 828.1
Future income taxes, discounted at 10%	296.4	267.8	180.1
Standardized measure of discounted future net cash flows	\$ 925.8	\$ 949.4	\$ 648.0

Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Therefore, without reserve additions in excess of production thro