

EXCO Resources, Inc.
Reconciliation of non-GAAP financial metrics to GAAP

Management believes that certain non-GAAP financial metrics are meaningful and useful to investors, analysts and/or rating agencies. In reporting 2008 financial results, management disclosed the following non-GAAP financial measures.

- (1) “Adjusted revenues”
- (2) “Cash flow from operations before working capital”
- (3) “Adjusted net income (loss)”
- (4) “Adjusted net income (loss) available to common shareholders”
- (5) “Earnings before interest, taxes, depreciation, depletion and amortization (EBITDA),” and “Adjusted EBITDA”

In the following tables these non-GAAP measures are reconciled to the appropriate GAAP financial metrics.

Adjusted revenues

Adjusted revenues are not a measure of revenues in accordance with GAAP. We believe that adjusted revenue is a meaningful measure to investors and rating agencies as it presents the combination of actual revenues before the impact of oil and natural gas derivatives in accordance with GAAP, combined with the actual cash receipts or settlements arising from the oil and natural gas derivative program. Adjusted revenues specifically exclude the non-cash unrealized gains or losses from derivative activities as the non-cash impact of the changes in the fair value of derivatives does not impact our current liquidity and cash flows used to fund our operations, execute our capital program and make acquisitions. EXCO does not designate its derivatives as hedges. As a result, unrealized gains or losses in the fair market value of our derivatives are recognized as a component of current revenues.

<u>(in thousands)</u>	Three months ended	
	March 31, 2008	March 31, 2007
Oil and natural gas revenues, before derivative financial instruments.....	\$ 317,690	\$ 118,495
Cash settlements on derivative financial instruments	3,015	32,073
Subtotal, revenues including cash settlements on derivative financial instruments	320,705	150,568
Non-cash gain (loss) on oil and natural gas derivative financial instruments.....	(344,209)	(128,092)
Oil and natural gas revenues	(23,504)	22,476
Midstream revenues (1).....	-	-
Other income	8,545	6,725
Total revenues and other income, GAAP.....	(14,959)	29,201
Elimination of non-cash oil and natural gas derivative financial instruments activity included in GAAP revenues.....	344,209	128,092
Adjusted revenues, non-GAAP measure.....	<u>\$ 329,250</u>	<u>\$ 157,293</u>

(1) We began reporting our Midstream operations as a separate business segment as of the period ended June 30, 2008

Cash flow from operations before working capital

Cash flow from operations before working capital changes and adjustments for settlements of derivative financial instruments with a financing element is presented because management believes it is a useful financial indicator for companies in our industry. This non-GAAP disclosure is widely accepted as a measure of an oil and natural gas company’s ability to provide the cash needed to fund development and acquisition activities and

service debt or pay dividends.

Operating cash flow is not a measure of financial performance pursuant to GAAP and should not be used as an alternative to cash flows from operating, investing, or financing activities. We have also elected to exclude the adjustment for derivative financial instruments with a financing element as this adjustment simply reclassifies settlements from operating cash flows to financing activities. Management believes these settlements should be included in this non-GAAP measure to conform with the intended measure of our ability to provide cash to fund operations and development activities.

<u>(in thousands)</u>	Three months ended	
	March 31, 2008	March 31, 2007
Cash flow from operations, GAAP	\$ 199,510	\$ 32,551
Net change in working capital.....	12,085	15,339
Cash settlements of assumed derivatives with a financing element	10,467	-
Cash flow from operations before changes in working capital, non-GAAP measure	<u>\$ 222,062</u>	<u>\$ 47,890</u>

Adjusted net income (loss) and Adjusted net income (loss) available to common shareholders

Our reported net income (loss) and our reported net income (loss) available to common shareholders, both GAAP measures, include certain items not typically included by securities analysts in their published estimates of financial results. Management is disclosing the non-GAAP measures of adjusted net income (loss) and adjusted net income (loss) available to common shareholders because these measures quantify the financial impact of non-cash gains or losses resulting from derivatives and certain items management believes affect the comparability of our results of operations which are included in GAAP net income measures. The following table provides a reconciliation of our net income (loss) to the non-GAAP measure of adjusted net income (loss).

<u>(in thousands, except per share amounts)</u>	Three months ended	
	March 31, 2008	March 31, 2007
Net income (loss), GAAP.....	\$ (162,839)	\$ (87,697)
Adjustments:		
Non-cash mark-to-market (gains) losses on oil and natural gas derivative financial instruments, before taxes	344,209	128,092
Non-cash mark-to-market (gains) losses on interest rate derivative financial instruments, before taxes	3,631	-
Nonrecurring financing costs, before taxes.....	-	32,100
Income taxes on adjustments.....	<u>(120,316)</u>	<u>(64,109)</u>
Total adjustments, net of taxes	<u>227,524</u>	<u>96,083</u>
Adjusted net income (loss), non-GAAP measure	<u>\$ 64,685</u>	<u>\$ 8,386</u>
Net loss available to common shareholders, GAAP.....	\$ (197,839)	\$ (88,833)
Impact of potentially dilutive common stock equivalents.....		
Adjustments shown above.....	<u>227,524</u>	<u>96,083</u>
Adjusted net income (loss) available to common shareholders, non-GAAP measure	<u>\$ 29,685</u>	<u>\$ 7,250</u>

Earnings before interest, taxes, depreciation, depletion and amortization (EBITDA), and Adjusted EBITDA

Earnings before interest, taxes, depreciation, depletion and amortization, or “EBITDA” represents net income

adjusted to exclude interest expense, income taxes, depreciation, depletion and amortization. “Adjusted EBITDA” represents EBITDA adjusted to exclude accretion of discount on asset retirement obligations, non-cash changes in the fair value of derivatives and stock-based compensation. We have presented EBITDA and Adjusted EBITDA because they are a widely used measure by investors, analysts and rating agencies for valuations, peer comparisons and investment recommendations.

In addition, these measures are used in covenant calculations required under our credit agreements and the indenture governing our 7 1/4 % senior notes. Compliance with the liquidity and debt incurrence covenants included in these agreements is considered material to us. Our computations of EBITDA and Adjusted EBITDA may differ from computations of similarly titled measures of other companies due to differences in the inclusion or exclusion of items in our computations as compared to those of others. EBITDA and Adjusted EBITDA are measures that are not prescribed by generally accepted accounting principles, or GAAP. EBITDA and Adjusted EBITDA specifically exclude changes in working capital, capital expenditures and other items that are set forth on a cash flow statement presentation of a company’s operating, investing and financing activities. As such, we encourage investors not to use these measures as substitutes for the determination of net income, net cash provided by operating activities or other similar GAAP measures.

<u>(in thousands)</u>	Three months ended	
	<u>March 31,</u> <u>2008</u>	<u>March 31,</u> <u>2007</u>
Net income (loss)	\$ (162,839)	\$ (87,697)
Interest expense.....	36,020	76,709
Income tax expense (benefit).....	(76,912)	(57,152)
Depreciation, depletion and amortization.....	109,217	51,324
EBITDA, non-GAAP measure (1).....	(94,514)	(16,816)
Accretion of discount on asset retirement obligations.....	1,316	943
Non-cash change in fair value of oil and natural gas derivative financial instruments.....	344,209	128,092
Stock based compensation expense.....	3,004	1,910
Adjusted EBITDA, non-GAAP measure (1).....	<u>\$ 254,015</u>	<u>\$ 114,129</u>

(1) Excludes non-cash change in fair value of interest rate swaps included in GAAP interest expense.