

**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.

| <b>(in thousands, except prices)</b>  | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>September 30,</b>      |             |
|   | <b>2008</b>               | <b>2007</b> |
| Oil and natural gas revenues, before derivative financial instruments.....  | \$ 402,384                | \$ 228,316  |
| Cash settlements on derivative financial instruments .....  | (70,019)                  | 46,249      |
| Subtotal, revenues including cash settlements on derivative financial instruments .....                             | 332,365                   | 274,565     |
| Non-cash gain (loss) on oil and natural gas derivative financial instruments.....                                   | 970,332                   | 52,003      |
| Oil and natural gas revenues .....  | 1,302,697                 | 326,568     |
| Midstream revenues.....   | 27,004                    | 4,432       |
| Other income .....  | 1,820                     | 2,417       |
| Total revenues, marketing and other income, GAAP.....   | 1,331,521                 | 333,417     |
| Elimination of non-cash oil and natural gas derivative financial instrument activity included in GAAP revenues..... | (970,332)                 | (52,003)    |
| Adjusted revenues, non-GAAP measure .....   | \$ 361,189                | \$ 281,414  |

**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>   | <b>Three months ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>September 30,</b>      |                   |
|   | <b>2008</b>               | <b>2007</b>       |
| Cash flow from operations, GAAP .....   | \$ 299,783                | \$ 211,172        |
| Net change in working capital.....  | (53,559)                  | (22,379)          |
| Settlements of derivative financial instruments with a<br>financing element .....     | (34,405)                  | (4,342)           |
| Cash flow from operations before changes<br>in working capital, non-GAAP measure..... | <u>\$ 211,819</u>         | <u>\$ 184,451</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>  | <b>Three months ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>September 30</b>       |                    |
|  | <b>2008</b>               | <b>2007</b>        |
| Net income (loss), GAAP.....   | \$ (146,329)              | \$ 56,462          |
| Adjustments:   |                           |                    |
| Non-cash mark-to-market gains on oil and natural gas<br>derivative financial instruments, before taxes ..... | (970,332)                 | (52,003)           |
| Non-cash mark-to-market losses on interest rate<br>derivative financial instruments, before taxes .....      | 2,215                     | -                  |
| Non-cash write down of oil and natural gas properties.....   | 1,193,105                 | -                  |
| Income taxes on above adjustments .....  | (89,995)                  | 20,801             |
| Deferred tax asset valuation allowance .....   | 63,302                    | -                  |
| Total adjustments, net of taxes .....  | <u>198,295</u>            | <u>(31,202)</u>    |
| Adjusted net income (loss), non-GAAP measure.....  | <u>\$ 51,966</u>          | <u>\$ 25,260</u>   |
| Net income (loss) available to common shareholders, GAAP .....   | \$ (153,326)              | \$ 10,729          |
| Adjustments shown above .....  | 198,295                   | (31,202)           |
| Dilution attributable to stock options.....  | -                         | -                  |
| Adjusted net income (loss) available to common shareholders, non-GAAP measure.....                           | <u>\$ 44,969</u>          | <u>\$ (20,473)</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.

| <b>(in thousands)</b>   | <b>Three months ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>September 30,</b>      |                   |
|   | <b>2008</b>               | <b>2007</b>       |
| Net income (loss) .....   | \$ (146,329)              | \$ 56,462         |
| Interest expense.....   | 44,874                    | 36,523            |
| Income tax expense (benefit).....   | (4,291)                   | 60,774            |
| Depreciation, depletion and amortization.....   | 126,207                   | 109,325           |
| EBITDA.....   | 20,461                    | 263,084           |
| Accretion of discount on asset retirement obligations.....                                    | 1,482                     | 1,324             |
| Non-cash write-down of oil and natural gas properties.....                                    | 1,193,105                 | -                 |
| Non-cash change in fair value of oil and natural gas<br>derivative financial instruments..... | (970,332)                 | (52,003)          |
| Stock based compensation expense.....   | 4,154                     | 2,263             |
| Adjusted EBITDA.....  | <u>\$ 248,870</u>         | <u>\$ 214,668</u> |