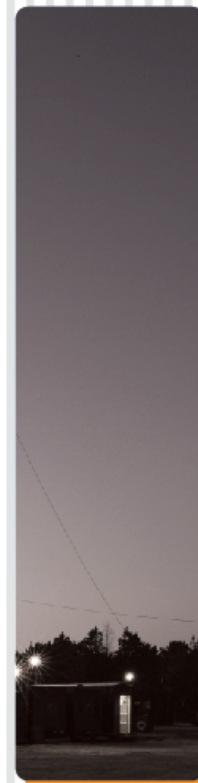


**Fourth Quarter 2008
Non-GAAP
Reconciliations and
Appendix**



EXCO Resources, Inc.



Operating Results



| (in thousands) | Three months ended December 31, | | % change | Twelve months ended December 31, | | % change |
|--|------------------------------------|-----------|-------------|-------------------------------------|------------|-------------|
| | 2008 | 2007 | | 2008 | 2007 | |
| Revenues: | | | | | | |
| Oil | \$ 33,273 | \$ 41,391 | -20% | \$ 216,727 | \$ 117,073 | 85% |
| Natural gas | 215,567 | 224,169 | -4% | 1,188,099 | 758,714 | 57% |
| Midstream | 23,580 | 4,628 | 410% | 85,432 | 18,817 | 354% |
| Total revenues | 272,420 | 270,188 | 1% | 1,490,258 | 894,604 | 67% |
| Costs and expenses: | | | | | | |
| Oil and natural gas production cost – cash ⁽¹⁾ | 59,660 | 45,556 | 31% | 233,897 | 165,408 | 41% |
| Oil and natural gas production cost – non-cash | 885 | 2,094 | -58% | 4,174 | 3,591 | 16% |
| Gathering and transportation | 3,703 | 3,548 | 4% | 14,206 | 10,210 | 39% |
| Midstream operating expense | 23,126 | 4,950 | 367% | 82,797 | 16,289 | 408% |
| General and administrative – cash ⁽²⁾ | 20,030 | 14,684 | 36% | 75,763 | 55,629 | 36% |
| General and administrative – non-cash | 4,252 | 3,811 | 12% | 11,805 | 9,041 | 31% |
| Subtotal | 111,656 | 74,643 | 50% | 422,642 | 260,168 | 62% |
| Depreciation, depletion and amortization | 113,609 | 109,623 | 4% | 460,314 | 375,420 | 23% |
| Write-down of oil and natural gas properties | 1,622,730 | - | - | 2,815,835 | - | - |
| Accretion of discount on asset retirement obligations | 2,432 | 1,344 | 81% | 6,703 | 4,878 | 37% |
| Total costs and expenses | 1,850,427 | 185,610 | 897% | 3,705,494 | 640,466 | 479% |
| Operating income (loss) | (1,578,007) | 84,578 | -1966% | (2,215,236) | 254,138 | -972% |
| Other income (expense): | | | | | | |
| Interest expense | (60,471) | (34,575) | 75% | (161,638) | (181,350) | -11% |
| Gain (loss) on derivative financial instruments – cash | 48,083 | 23,462 | 105% | (109,300) | 108,413 | -201% |
| Gain (loss) on derivative financial instruments – non-cash | 439,840 | (76,785) | -673% | 493,689 | (81,606) | -705% |
| Other income | (1,515) | 2,578 | -159% | 3,981 | 10,157 | -61% |
| Total other income (expense) | 425,937 | (85,320) | -599% | 226,732 | (144,386) | -257% |
| Income (loss) before income tax | (1,152,070) | (742) | 155165% | (1,988,504) | 109,752 | -1912% |
| Adjusted EBITDA ⁽³⁾ | 212,468 | 227,489 | -7% | 978,275 | 765,638 | 28% |

- (1) Non-GAAP measure; does not include share-based compensation, pursuant to SFAS No. 123(R), of \$885 thousand, \$2,094 thousand, \$4,174 thousand and \$3,591 thousand for the three months ended December 31, 2008 and 2007 and the twelve months ended December 31, 2008 and 2007 respectively
- (2) Non-GAAP measure; does not include share-based compensation, pursuant to SFAS No. 123(R), of \$4,252 thousand, \$3,811 thousand, \$11,805 thousand and \$9,041 thousand for the three months ended December 31, 2008 and 2007 and the twelve months ended December 31, 2008 and 2007 respectively
- (3) Non-GAAP measure; please see page 9 for reconciliation to most comparable GAAP measure

Unit Operating Statistics



| | Three months ended December 31 | | % Change | Twelve months ended December 31 | | % Change |
|--|-----------------------------------|----------|-------------|------------------------------------|----------|-------------|
| | 2008 | 2007 | | 2008 | 2007 | |
| <u>Production volumes:</u> | | | | | | |
| Oil – Mbbls | 593 | 469 | 26% | 2,236 | 1,645 | 36% |
| Gas – Mmcf | 33,472 | 31,828 | 5% | 131,159 | 111,419 | 18% |
| Total - Mmcfe | 37,030 | 34,642 | 7% | 144,575 | 121,289 | 19% |
| Mmcfe/d | 403 | 377 | 7% | 395 | 332 | 19% |
| <u>Realized pricing before hedge effects:</u> | | | | | | |
| Oil per Bbl | \$ 56.11 | \$ 88.25 | -36% | \$ 96.93 | \$ 71.17 | 36% |
| Gas per Mcf | 6.44 | 7.04 | -9% | 9.06 | 6.81 | 33% |
| Per Mcfe | 6.72 | 7.67 | -12% | 9.72 | 7.22 | 35% |
| <u>Production costs per Mcfe:</u> | | | | | | |
| Oil and natural gas operating costs ⁽¹⁾ | \$ 1.20 | \$ 0.93 | 29% | \$ 1.08 | \$ 0.92 | 17% |
| Production taxes | 0.42 | 0.39 | 8% | 0.53 | 0.44 | 20% |
| Total production costs | \$ 1.62 | \$ 1.32 | 23% | \$ 1.61 | \$ 1.36 | 18% |
| Gathering and transportation costs | \$ 0.10 | \$ 0.10 | 0% | \$ 0.10 | \$ 0.08 | 25% |
| Cash operating margin | \$ 5.00 | \$ 6.25 | -20% | \$ 8.01 | \$ 5.78 | 39% |
| Effects of cash settlements on derivatives | 1.30 | 0.68 | 92% | (0.76) | 0.89 | -185% |
| Net cash operating margin | \$ 6.30 | \$ 6.93 | -9% | \$ 7.25 | \$ 6.67 | 9% |

(1) Non-GAAP measure; does not include share-based compensation, pursuant to SFAS No. 123(R), of \$0.02, \$0.06, \$0.03 and \$0.06 per Mcfe for the three months ended December 31, 2008 and 2007 and the twelve months ended December 31, 2008 and 2007 respectively

Year End Total Proved Reserves



Our proved reserves, using December 31, 2008 spot prices, on a constant price basis, of \$5.71 per Mmbtu and \$44.60 per Bbl were as follows:

| | Oil (Mbbbls) | Natural gas (Mmcfe) | Equivalent natural gas (Mmcfe) |
|--|-----------------|------------------------|--------------------------------------|
| Proved developed | 14,815 | 1,354,729 | 1,443,619 |
| Proved undeveloped | 5,986 | 460,409 | 496,325 |
| Total | 20,801 | 1,815,138 | 1,939,944 |
| The changes in reserves for the year are as follows: | | | |
| December 31, 2007 | 20,930 | 1,739,550 | 1,865,130 |
| Purchase of reserves in place | 635 | 175,679 | 179,489 |
| Extensions and discoveries | 5,040 | 259,801 | 290,041 |
| Revisions of previous estimates | | | |
| Changes in price | (2,407) | (93,015) | (107,457) |
| Changes other than price | (1,060) | (130,605) | (136,965) |
| Sales of reserves in place | (101) | (5,113) | (5,719) |
| Production | (2,236) | (131,159) | (144,575) |
| December 31, 2008 | 20,801 | 1,815,138 | 1,939,944 |

| (dollars in thousands, except per Mcfe) | Cost | (Mmcfe) | Per Mcfe |
|---|---------------------|----------------|----------------|
| Development and exploration ⁽¹⁾ | \$ 693,173 | 290,041 | \$ 2.39 |
| Proved property acquisition | 604,723 | 179,489 | 3.37 |
| Revisions - other than price ⁽²⁾ | - | (136,965) | - |
| Subtotal | 1,297,896 | 332,565 | 3.90 |
| Revisions - price | - | (107,457) | - |
| Sales of reserves in place | (15,543) | (5,719) | - |
| Total⁽³⁾ | \$ 1,297,896 | 225,108 | \$ 5.77 |

(1) Includes \$111.4 million of exploration costs; \$103.4 million related to the Haynesville and Marcellus shales

(2) Primarily consists of adjustments related to prior year acquisitions

(3) Does not include \$187.1 million of lease acquisition costs, \$87.2 million of unproved property acquisitions and \$19.2 million of capitalized asset retirement costs

Midstream Operations and Derivative Activities



Midstream operating segment

| (in thousands) | Three months ended December 31, | | Twelve months ended December 31, | |
|---|------------------------------------|-----------|-------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Midstream revenues (before intersegment eliminations) | \$ 41,721 | \$ 12,160 | \$ 147,636 | \$ 45,763 |
| Midstream operating expenses (before intersegment eliminations) | 33,705 | 6,288 | 112,705 | 22,276 |
| Midstream operating profit (before intersegment eliminations) | 8,016 | 5,872 | 34,931 | 23,487 |
| Intersegment eliminations | (7,562) | (6,194) | (32,296) | (20,959) |
| Midstream operating profit (after intersegment eliminations) | 454 | (322) | 2,635 | 2,528 |

Oil and natural gas derivative financial instruments

| (in thousands) | Three months ended December 31, | | Twelve months ended December 31, | |
|--|------------------------------------|----------|-------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash settlements on derivative financial instruments | 48,083 | 23,462 | (109,300) | 108,413 |
| Non-cash change in fair market value of derivative financial instruments | 439,840 | (76,785) | 493,689 | (81,606) |
| Total derivative financial instrument activities | 487,923 | (53,323) | 384,389 | 26,807 |

Non-GAAP Reconciliations



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:

- “Adjusted net income and adjusted net income (loss) available to common shareholders”
- “Cash flow from operations before changes in working capital”
- “EBITDA (Earnings before interest, taxes, depreciation, depletion and amortization) and adjusted EBITDA reconciliations”

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

Non-GAAP Reconciliations



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

| (in thousands, except per share amounts) | Three months ended December 31, 2008 | | Three months ended December 31, 2007 | | Twelve months ended December 31, 2008 | | Twelve months ended December 31, 2007 | |
|---|---|-----------|---|-----------|--|------------|--|-----------|
| | Amount | Per Share | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| Net income (loss), GAAP | \$ (1,161,389) | | \$ (1,995) | | \$ (1,733,471) | | \$ 49,656 | |
| Adjustments: | | | | | | | | |
| Non-cash mark-to-market (gains) losses on derivative financial instruments, before taxes | (424,807) | | 76,785 | | (483,811) | | 81,606 | |
| Non-cash write down of oil and natural gas properties | 1,622,730 | | - | | 2,815,835 | | - | |
| Nonrecurring financing costs, before taxes | - | | - | | - | | 32,100 | |
| Income taxes on above adjustments ⁽¹⁾ | (479,169) | | (30,791) | | (932,810) | | (45,596) | |
| Deferred tax asset valuation allowance ⁽²⁾ | 470,147 | | - | | 540,369 | | 11,000 | |
| Total adjustments, net of taxes | 1,188,901 | | 45,994 | | 1,939,583 | | 79,110 | |
| Adjusted net income ⁽³⁾ | \$ 27,512 | | \$ 43,999 | | \$ 206,112 | | \$ 128,766 | |
| Net loss available to common shareholders, GAAP ⁽⁴⁾ | \$ (1,161,389) | \$ (5.51) | \$ (36,995) | \$ (0.35) | \$ (1,810,468) | \$ (11.81) | \$ (83,312) | \$ (0.80) |
| Adjustments shown above | 1,188,901 | 5.64 | 45,994 | 0.44 | 1,939,583 | 12.65 | 79,110 | 0.76 |
| Dilution attributable to stock options ⁽⁵⁾ | - | - | - | (0.01) | - | (0.02) | - | - |
| Adjusted net income (loss) available to common shareholders ⁽³⁾ | \$ 27,512 | \$ 0.13 | \$ 8,999 | \$ 0.08 | \$ 129,115 | \$ 0.82 | \$ (4,202) | \$ (0.04) |
| <u>Common stock and equivalents used for earnings per share (EPS):</u> | | | | | | | | |
| Weighted average common shares outstanding | | 210,944 | | 104,522 | | 153,346 | | 104,364 |
| Dilutive stock options | | - | | 2,010 | | 5,035 | | 2,620 |
| Dilutive preferred stock | | - | | - | | - | | - |
| Shares used to compute dilutive EPS for adjusted net income (loss) available to common shareholders | | 210,944 | | 106,532 | | 158,381 | | 106,984 |

(1) The assumed income tax rate is 40% for all periods.

(2) Deferred tax valuation allowance has been adjusted to reflect favorable impacts of adjustments.

(3) Our reported net income 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 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 to the non-GAAP measure of adjusted net income (loss).

(4) Per share amounts are based on weighted average number of common shares outstanding

(5) Represents dilution per share attributable to common stock equivalents from in-the-money stock options for periods with adjusted net income available to common shareholders. None of the Preferred Stock, which was issued on March 30, 2007 and converted into common stock on July 18, 2008, was dilutive for any of the periods.

Non-GAAP Reconciliations



Cash flow from operations before changes in working capital

| (in thousands) | Three months ended December 31, | | % change | Twelve months ended December 31, | | % change |
|--|------------------------------------|-------------------|-------------|-------------------------------------|-------------------|-------------|
| | 2008 | 2007 | | 2008 | 2007 | |
| Cash flow from operations, GAAP | \$ 162,949 | \$ 197,531 | | \$ 974,966 | \$ 577,829 | |
| Net change in working capital | (80) | 821 | | (49,866) | 36,139 | |
| Settlements of derivative financial instruments with a financing element | 12,901 | (6,194) | | (83,603) | (14,214) | |
| Cash flow from operations before changes in working capital, non-GAAP measure ⁽¹⁾ | <u>\$ 175,770</u> | <u>\$ 192,158</u> | -9% | <u>\$ 841,497</u> | <u>\$ 599,754</u> | 40% |

- (1) 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 cash used 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.

Non-GAAP Reconciliations



EBITDA and adjusted EBITDA reconciliations

| (in thousands) | Three months ended December 31, | | Twelve months ended December 31, | |
|---|------------------------------------|------------|-------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net income (loss) | \$ (1,161,389) | \$ (1,995) | \$ (1,733,471) | \$ 49,656 |
| Interest expense, net | 60,471 | 34,575 | 161,638 | 181,350 |
| Income tax expense (benefit) | 9,319 | 1,253 | (255,033) | 60,096 |
| Depreciation, depletion and amortization | 113,609 | 109,623 | 460,314 | 375,420 |
| EBITDA ⁽¹⁾ | (977,990) | 143,456 | (1,366,552) | 666,522 |
| Accretion of discount on asset retirement obligations | 2,432 | 1,344 | 6,703 | 4,878 |
| Non-cash write-down of oil and natural gas properties | 1,622,730 | - | 2,815,835 | - |
| Non-cash change in fair value of oil and natural gas derivative financial instruments | (439,840) | 76,785 | (493,689) | 81,606 |
| Stock based compensation expense | 5,136 | 5,904 | 15,978 | 12,632 |
| Adjusted EBITDA ⁽¹⁾ | \$ 212,468 | \$ 227,489 | \$ 978,275 | \$ 765,638 |
| Interest expense, net ⁽²⁾ | (45,438) | (34,575) | (151,760) | (181,350) |
| Income tax expense | (9,319) | (1,253) | 255,033 | (60,096) |
| Amortization of deferred financing costs, premium on 7¼% senior notes due 2011 and discount on long-term debt | 8,668 | (468) | 15,195 | 10,332 |
| Deferred income taxes | 9,372 | 1,253 | (255,285) | 66,171 |
| Changes in operating assets and liabilities | 99 | (1,109) | 49,905 | (37,080) |
| Settlements of derivative financial instruments with a financing element | (12,901) | 6,194 | 83,603 | 14,214 |
| Net cash provided by operating activities | \$ 162,949 | \$ 197,531 | \$ 974,966 | \$ 577,829 |
| Statement of cash flow data: | | | | |
| Cash flow provided by (used in): | | | | |
| Operating activities | \$ 162,949 | \$ 197,531 | \$ 974,966 | \$ 577,829 |
| Investing activities | (223,442) | (367,885) | (1,708,579) | (2,396,437) |
| Financing activities | 22,497 | 79,067 | 735,242 | 1,851,296 |

Non-GAAP Reconciliations



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