



EXCO Resources, Inc.



Fourth Quarter and Full Year 2009 Non-GAAP Reconciliations and Appendix



Operating Results

(in thousands)	Three months ended December 31,		% change	Twelve months ended December 31,		% change
	2009	2008		2009	2008	
Revenues: (excludes derivatives)						
Oil	\$ 14,826	\$ 33,273	-55%	\$ 84,397	\$ 216,727	-61%
Natural gas	91,726	215,567	-57%	466,108	1,188,099	-61%
Midstream	-	23,580	-100%	35,330	85,432	-59%
Total operating revenues	\$ 106,552	\$ 272,420	-61%	\$ 585,835	\$ 1,490,258	-61%
Costs and expenses:						
Oil and natural gas production cost – cash	32,258	59,660	-46%	174,798	233,897	-25%
Oil and natural gas production cost – non-cash ⁽¹⁾	833	885	-6%	2,831	4,174	-32%
Gathering and transportation	6,081	3,703	64%	18,960	14,206	33%
Midstream operating expense	-	23,126	-100%	35,580	82,797	-57%
General and administrative – cash	26,204	20,030	31%	83,021	75,763	10%
General and administrative – non-cash ⁽¹⁾	8,291	4,252	95%	16,156	11,805	37%
Total operating costs and expenses	\$ 73,667	\$ 111,656	-34%	\$ 331,346	\$ 422,642	-22%
Depreciation, depletion and amortization	33,755	113,609	-70%	221,438	460,314	-52%
Write-down of oil and natural gas properties	-	1,622,730	-100%	1,293,579	2,815,835	-54%
Gain on divestitures and other operating items	(223,770)	1,556	-14481%	(676,434)	(2,692)	25028%
Accretion of discount on asset retirement obligations	1,276	2,432	-48%	7,132	6,703	6%
Total costs and expenses	\$ (115,072)	\$ 1,851,983	-106%	\$ 1,177,061	\$ 3,702,802	-68%
Operating income (loss)	221,624	(1,579,563)	-114%	(591,226)	(2,212,544)	-73%
Other income (expense):						
Interest expense	(17,401)	(60,471)	-71%	(147,161)	(161,638)	-9%
Gain (loss) on derivative financial instruments – cash	124,332	48,083	159%	478,463	(109,300)	-538%
Gain (loss) on derivative financial instruments – non-cash	(97,192)	439,840	-122%	(246,438)	493,689	-150%
Equity method income (loss) in TGGT	357	-	-	(69)	-	-
Other income	59	41	44%	126	1,289	-90%
Total other income (expense)	\$ 10,155	\$ 427,493	-98%	\$ 84,921	\$ 224,040	-62%
Income (loss) before income tax	\$ 231,779	\$ (1,152,070)	-120%	\$ (506,305)	\$ (1,988,504)	-75%
Adjusted EBITDA ⁽²⁾	\$ 168,435	\$ 212,468	-21%	\$ 746,138	\$ 978,275	-24%

(1) Represents stock based compensation

(2) Non-GAAP measure; please see reconciliation to most comparable GAAP measure

Unit Operating Statistics

	Three months ended December 31		% Change	Twelve months ended December 31		% Change
	2009	2008		2009	2008	
<u>Production volumes:</u>						
Oil – Mbbls	204	593	-66%	1,571	2,236	-30%
Gas – Mmcf	22,138	33,472	-34%	118,736	131,159	-9%
Total - Mmcfe	23,362	37,030	-37%	128,162	144,575	-11%
Mmcfe/d	254	403	-37%	351	395	-11%
<u>Realized pricing⁽¹⁾:</u>						
Oil per Bbl	\$ 72.68	\$ 56.11	30%	\$ 53.72	\$ 96.93	-45%
Gas per Mcf	4.14	6.44	-36%	3.93	9.06	-57%
Per Mcfe	4.56	6.72	-32%	4.30	9.72	-56%
<u>Production costs per Mcfe:</u>						
Operating costs ⁽²⁾	\$ 1.10	\$ 1.20	-8%	\$ 1.06	\$ 1.08	-2%
Production taxes	0.28	0.42	-33%	0.30	0.53	-43%
Total production costs	\$ 1.38	\$ 1.62	-15%	\$ 1.36	\$ 1.61	-16%
Gathering and transportation costs	\$ 0.26	\$ 0.10	160%	\$ 0.15	\$ 0.10	50%
Cash operating margin	\$ 2.92	\$ 5.00	-42%	\$ 2.79	\$ 8.01	-65%
Effects of cash settlements on derivatives	5.32	1.30	310%	3.73	(0.76)	-594%
Net cash operating margin	\$ 8.24	\$ 6.30	31%	\$ 6.52	\$ 7.25	-10%

(1) Does not include the effects of derivative financial instruments

(2) Does not include stock based compensation which would have increased operating costs per Mcfe by \$0.04 and \$0.02 for the three and twelve months ended December 31, 2009 and \$0.02 and \$0.03 for the three and twelve months ended December 31, 2008

Year End SEC Total Proved Reserves

Our proved reserves, using December 31, 2009 cash spot prices, pursuant to the new SEC pricing rules, on a constant price basis, of \$3.87 per Mmbtu and \$61.18 per Bbl were as follows:

	Oil (Mbbbls)	Natural gas (Mmcfe)	Equivalent natural gas (Mmcfe)
Proved developed	3,505	622,160	643,190
Proved undeveloped	2,013	303,568	315,646
Total	5,518	925,728	958,836
The changes in reserves for the year are as follows:			
December 31, 2008	20,801	1,815,138	1,939,944
Purchase of reserves in place	-	8,065	8,065
Extensions and discoveries	202	240,844	242,056
Revisions of previous estimates			
Changes in price	(1,482)	(249,948)	(258,840)
Changes other than price	124	(54,613)	(53,869)
Sales of reserves in place	(12,556)	(715,023)	(790,359)
Production	(1,571)	(118,735)	(128,161)
December 31, 2009	5,518	925,728	958,836

Year End SEC Total Proved Reserves

Development costs

Total Proved Reserves F&D (dollars in thousands, except per Mcfe)	Cost	Reserves Mmcf	Per Mcfe
Haynesville/DeSoto	\$ 143,570	202,147	\$ 0.71
Conventional	119,216	33,093	\$ 3.60
Exploratory	37,051	6,816	\$ 5.44
Total development and exploration	\$ 299,837	242,056	\$ 1.24
Revisions - other than price ⁽¹⁾	-	(53,869)	
Subtotal	299,837	188,187	\$ 1.59
Proved property acquisition	6,473	8,065	\$ 0.80
Leasing ⁽²⁾	63,416	-	
Total ⁽³⁾	\$ 369,726	196,252	\$ 1.88

Total Proved Developed Reserves F&D (dollars in thousands, except per Mcfe)	Cost	Reserves Mmcf	Per Mcfe
Development	\$ 262,786	89,001	\$ 2.95
Exploratory	37,051	6,816	\$ 5.44
Total development and exploration	299,837	95,817	\$ 3.13

- (1) There are both positive and negative revisions across the portfolio; Appalachia conventional gas and certain Vernon Field wells represent the majority of our downward revisions
(2) Assumes BG has elected to participate in leasing activities for \$43 million
(3) Excludes \$227 million of unproved property acquisition costs and a reduction in capitalized asset retirement cost of \$1 million

Non-GAAP Reconciliations

Management believes that certain non-GAAP financial metrics are meaningful and useful to investors, analysts and/or rating agencies. In reporting 2009 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 available to common shareholders

(in thousands, except per share amounts)	Three months ended December 31, 2009		Three months ended December 31, 2008		Twelve months ended December 31, 2009		Twelve months ended December 31, 2008	
	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net income (loss), GAAP	\$ 241,469		\$ (1,161,389)		\$ (496,804)		\$ (1,733,471)	
Adjustments:								
Non-cash mark-to-market (gains) losses on derivative financial instruments, before taxes	93,581		(424,807)		238,577		(483,811)	
Non-cash write down of oil and natural gas properties	-		1,622,730		1,293,579		2,815,835	
Gain on divestures and non-recurring other operating items	(221,735)		-		(682,361)		-	
Income taxes on above adjustments ⁽¹⁾	51,262		(479,169)		(347,714)		(932,810)	
Adjustment to deferred tax asset valuation allowance ⁽²⁾	(102,402)		470,147		200,817		540,369	
Total adjustments, net of taxes	(179,294)		1,188,901		702,898		1,939,583	
Adjusted net income ⁽³⁾	\$ 62,175		\$ 27,512		\$ 206,094		\$ 206,112	
Net income (loss) available to common shareholders, GAAP ⁽⁴⁾	\$ 241,469	\$ 1.14	\$ (1,161,389)	\$ (5.51)	\$ (496,804)	\$ (2.35)	\$ (1,810,468)	\$ (11.81)
Adjustments shown above ⁽⁴⁾	(179,294)	(0.85)	1,188,901	5.64	702,898	3.33	1,939,583	12.65
Adjusted net income available to common shareholders	62,175		27,512		206,094		129,115	-
Dilution attributable to stock options ⁽⁵⁾	-	\$ -	-	\$ -	-	\$ -	-	\$ (0.02)
Adjusted net income available to common shareholders for diluted earnings per share	\$ 62,175	\$ 0.29	\$ 27,512	\$ 0.13	\$ 206,094	\$ 0.98	\$ 129,115	\$ 0.82
<u>Common stock and equivalents used for earnings per share (EPS):</u>								
Weighted average common shares outstanding		211,707		210,944		211,266		153,346
Dilutive stock options		2,846		-		-		5,035
Shares used to compute dilutive EPS for adjusted net income available to common shareholders		214,553		210,944		211,266		158,381

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

(2) Deferred tax valuation allowance has been adjusted to reflect 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 available to common shareholders because it quantifies the financial impact of non-cash gains or losses resulting from derivatives, non-cash ceiling test write-downs and other 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) and net income (loss) available to common shareholders to the non-GAAP measure of adjusted net income available to common shareholders.

(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.

Non-GAAP Reconciliations

Cash flow from operations before changes in working capital

(in thousands)	Three months ended December 31,		%	Twelve months ended December 31,		%
	2009	2008		change	2009	
Cash flow from operations, GAAP	\$ 83,748	\$ 162,949		\$ 433,605	\$ 974,966	
Net change in working capital	17,796	(80)		13,277	(49,866)	
Settlements of derivative financial instruments with a financing element	41,170	12,901		182,952	(83,603)	
Cash flow from operations before changes in working capital, non-GAAP measure ⁽¹⁾	\$ 142,714	\$ 175,770	-39%	\$ 629,834	\$ 841,497	-28%

- (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.

Oil and gas derivative financial instruments

(in thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2009	2008	2009	2008
Cash settlements from oil and natural gas derivative financial instruments				
Oil - cash settlements	\$ 34,766	\$ 8,933	\$ 62,567	\$ (38,765)
Natural gas - cash settlements	89,566	39,150	415,896	(70,535)
Total cash settlements	124,332	48,083	478,463	(109,300)
Non-cash change in fair market value of oil and natural gas derivative financial instruments	(97,192)	439,840	(246,438)	493,689
Gain/(loss) on oil and natural gas derivative financial instruments	\$ 27,140	\$ 487,923	\$ 232,025	\$ 384,389

Non-GAAP Reconciliations

EBITDA and adjusted EBITDA reconciliations

(in thousands)	Three months ended December 31,		Twelve months ended December 31,	
	2009	2008	2009	2008
Net income (loss)	\$ 241,469	\$ (1,161,389)	\$ (496,804)	\$ (1,733,471)
Interest expense, net	17,401	60,471	147,161	161,638
Income tax expense (benefit)	(9,690)	9,319	(9,501)	(255,033)
Depreciation, depletion and amortization	33,755	113,609	221,438	460,314
EBITDA ⁽¹⁾	\$ 282,935	\$ (977,990)	\$ (137,706)	\$ (1,366,552)
Accretion of discount on asset retirement obligations	1,276	2,432	7,132	6,703
Non-cash write-down of oil and natural gas properties	-	1,622,730	1,293,579	2,815,835
Gain on divestitures and non-recurring other operating items	(221,735)	-	(682,361)	-
Equity method loss in TGGT Holdings, LLC	(357)	-	69	-
Non-cash change in fair value of oil and natural gas derivative financial instruments	97,192	(439,840)	246,438	(493,689)
Stock based compensation expense	9,124	5,136	18,987	15,978
Adjusted EBITDA ⁽¹⁾	\$ 168,435	\$ 212,468	\$ 746,138	\$ 978,275
Interest expense, net ⁽²⁾	(21,012)	(45,438)	(155,022)	(151,760)
Income tax benefit (expense)	9,690	(9,319)	9,501	255,033
Non-recurring other operating items	(9,571)	-	(9,571)	-
Amortization of deferred financing costs, premium on 7¼% senior notes due 2011 and discount on long-term debt	3,832	8,668	48,159	15,195
Deferred income taxes	(8,660)	9,372	(9,371)	(255,285)
Changes in operating assets and liabilities	(17,796)	99	(13,277)	49,905
Settlements of derivative financial instruments with a financing element	(41,170)	(12,901)	(182,952)	83,603
Net cash provided by operating activities	\$ 83,748	\$ 162,949	\$ 433,605	\$ 974,966
Statement of cash flow data:				
Cash flow provided by (used in):				
Operating activities	\$ 83,748	\$ 162,949	\$ 433,605	\$ 974,966
Investing activities	385,513	(223,442)	1,235,275	(1,708,579)
Financing activities	(456,535)	22,497	(1,657,612)	735,242

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 \$3.6 million and \$7.9 million for the three and twelve months ended December 31, 2009, respectively, and \$15.0 million and \$9.9 million for the three and twelve months ended December 31, 2008, respectively, for interest rate swaps included in GAAP interest expense.