



EXCO Resources, Inc.

## Second Quarter 2012 Non-GAAP Reconciliations and Appendix





# Operating Results

(in thousands)	Three months ended June 30,		% change	Six months ended June 30,		% change
	2012	2011		2012	2011	
<b>Revenues: (excludes derivatives)</b>						
Oil	\$ 15,721	\$ 17,650	-11%	\$ 34,371	\$ 35,022	-2%
Natural Gas Liquids	5,259	7,438	-29%	11,713	14,107	-17%
Natural Gas	96,998	181,740	-47%	206,742	318,927	-35%
Total operating revenues	\$ 117,978	\$ 206,828	-43%	\$ 252,826	\$ 368,056	-31%
<b>Costs and expenses:</b>						
Oil and natural gas production cost – cash	25,652	27,088	-5%	55,641	51,649	8%
Oil and natural gas production cost – non-cash <sup>(1)</sup>	-	57	-100%	-	140	-100%
Gathering and transportation	25,913	19,504	33%	52,336	36,790	42%
General and administrative – cash	16,046	20,775	-23%	34,687	41,613	-17%
General and administrative – non-cash <sup>(1)</sup>	2,591	2,362	10%	5,455	4,947	10%
Total operating costs and expenses	\$ 70,202	\$ 69,786	1%	\$ 148,119	\$ 135,139	10%
Depreciation, depletion and amortization	87,337	85,412	2%	176,919	153,342	15%
Write-down of oil and natural gas properties	428,801	-	0%	704,665	-	0%
Other operating items	6,710	1,669	302%	8,335	4,126	102%
Accretion of discount on asset retirement obligations	964	933	3%	1,911	1,790	7%
Total costs and expenses	\$ 594,014	\$ 157,800	276%	\$ 1,039,949	\$ 294,397	253%
Operating income (loss)	(476,036)	49,028	-1071%	(787,123)	73,659	-1169%
<b>Other income (expense):</b>						
Interest expense	(20,369)	(13,679)	49%	(37,133)	(28,495)	30%
Gain (loss) on derivative financial instruments – cash	61,815	23,217	166%	111,960	50,152	123%
Gain (loss) on derivative financial instruments – non-cash	(77,073)	20,056	484%	(73,353)	(3,458)	-2021%
Equity loss (income)	15,033	3,538	325%	7,127	12,083	-41%
Other income	197	202	-2%	440	362	22%
Total other income (expense)	\$ (20,397)	\$ 33,334	-161%	\$ 9,041	\$ 30,644	-70%
Income (loss) before income tax	\$ (496,433)	\$ 82,362	-703%	\$ (778,082)	\$ 104,303	-846%
Adjusted EBITDA <sup>(2)</sup>	\$ 112,342	\$ 164,191	-32%	\$ 222,852	\$ 290,347	-23%

(1) Represents stock based compensation

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



## Unit Operating Statistics

	Three months ended June 30,		% Change	Six months ended June 30,		% Change
	2012	2011		2012	2011	
<u>Production volumes:</u>						
Oil – Mbbls	182	178	2%	374	371	1%
Natural Gas Liquids - Mbbls	131	123	7%	253	248	2%
Natural Gas – Mmcf	48,162	44,080	9%	95,154	79,217	20%
Total - Mmcf	50,040	45,886	9%	98,916	82,931	19%
Mmcf/d	550	504	9%	543	458	19%
<u>Realized pricing<sup>(1)</sup>:</u>						
Oil per Bbl	\$ 86.38	\$ 99.16	-13%	\$ 91.90	\$ 94.40	-3%
Natural Gas Liquids per Mcf	40.15	60.47	-34%	46.30	56.79	-18%
Natural Gas per Mcf	2.01	4.12	-51%	2.17	4.03	-46%
Per Mcfe	2.36	4.51	-48%	2.56	4.44	-42%
<u>Production costs per Mcfe:</u>						
Operating costs <sup>(2)</sup>	\$ 0.38	\$ 0.45	-16%	\$ 0.42	\$ 0.48	-13%
Production taxes	0.14	0.14	0%	0.14	0.15	-7%
Total production costs	\$ 0.52	\$ 0.59	-12%	\$ 0.56	\$ 0.63	-11%
Gathering and transportation costs	\$ 0.52	\$ 0.43	21%	\$ 0.53	\$ 0.44	20%
Cash operating margin	\$ 1.32	\$ 3.49	-62%	\$ 1.47	\$ 3.37	-56%
Effects of cash settlements on derivatives	1.24	0.51	143%	1.13	0.60	88%
Net cash operating margin	\$ 2.56	\$ 4.00	-36%	\$ 2.60	\$ 3.97	-35%

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

(2) Stock based compensation had no impact on operating costs for the three months ended March 31, 2012 and 2011, respectively.

## Non-GAAP Reconciliations

Management believes that certain non-GAAP financial metrics are meaningful and useful to investors, analysts and/or rating agencies. In reporting 2012 financial results, management disclosed the following non-GAAP financial measures:

- “Adjusted net income and adjusted net income (loss)”
- “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 June 30, 2012		Three months ended June 30, 2011		Six months ended June 30, 2012		Six months ended June 30, 2011	
	Amount	Per Share	Amount	Per Share	Amount	Per Share	Amount	Per Share
Net income (loss), GAAP	\$ (496,433)		\$ 82,362		\$ (778,082)		\$ 104,303	
Adjustments:								
Non-cash mark-to-market (gains) losses on derivative financial instruments, before taxes	77,073		(20,056)		73,353		3,458	
Non-cash write down of oil and natural gas properties, before taxes	428,801		-		704,665		-	
Adjustments included in equity income	-		-		18,799		-	
Non-recurring other operating items	6,673		2,980		8,625		5,955	
Deferred finance cost amortization acceleration	3,000		-		3,000		-	
Income taxes on above adjustments <sup>(1)</sup>	(206,219)		6,830		(323,377)		(3,765)	
Adjustment to deferred tax asset valuation allowance <sup>(2)</sup>	198,573		(32,944)		311,233		(41,721)	
Total adjustments, net of taxes	507,901		(43,190)		796,298		(36,073)	
Adjusted net income <sup>(3)</sup>	\$ 11,468		\$ 39,172		\$ 18,216		\$ 68,230	
Net income (loss), GAAP <sup>(4)</sup>	\$ (496,433)	\$ (2.32)	\$ 82,362	\$ 0.39	\$ (778,082)	\$ (3.63)	\$ 104,303	\$ 0.49
Adjustments shown above <sup>(4)</sup>	507,901	2.37	(43,190)	(0.20)	796,298	3.72	(36,073)	(0.17)
Dilution attributable to stock options <sup>(5)</sup>	-	-	-	(0.01)	-	-	-	(0.01)
Adjusted net income	\$ 11,468	\$ 0.05	\$ 39,172	\$ 0.18	\$ 18,216	\$ 0.09	\$ 68,230	\$ 0.31
<u>Common stock and equivalents used for earnings per share (EPS):</u>								
Weighted average common shares outstanding	214,164		213,888		214,154		213,710	
Dilutive stock options	-		3,625		-		3,603	
Shares used to compute dilutive EPS for adjusted net income	214,164		217,513		214,154		217,313	

(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, gains on divestitures and non-recurring other operating items, gains from early termination of derivatives and other items management believes affect the comparability of our results of operations which are included in GAAP net income measures. The 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.



## Non-GAAP Reconciliations

### Cash flow from operations before changes in working capital

(in thousands)	Three months ended June 30,		% change	Six months ended June 30,		% change
	2012	2011		2012	2011	
Cash flow from operations, GAAP	\$ 135,345	\$ 148,960		\$ 280,468	\$ 228,033	
Net change in working capital	(45,355)	372		(96,934)	31,611	
Non-recurring other operating items	6,673	2,980		8,625	5,955	
Cash flow from operations before changes in working capital, non-GAAP measure <sup>(1)</sup>	<u>\$ 96,663</u>	<u>\$ 152,312</u>	-37%	<u>\$ 192,159</u>	<u>\$ 265,599</u>	-28%

- (1) Cash flow from operations before working capital changes, early termination of derivatives, non-recurring other operating items and adjustments for settlements of derivative financial instruments with a financing element are 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 June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash settlements from oil and natural gas derivative financial instruments				
Oil - cash settlements	\$ 621	\$ 1,197	\$ (8)	\$ 3,502
Natural gas - cash settlements	61,194	22,020	111,968	46,650
Total cash settlements	<u>61,815</u>	<u>23,217</u>	<u>111,960</u>	<u>50,152</u>
Non-cash change in fair market value of oil and natural gas derivative financial instruments	<u>(77,073)</u>	<u>20,056</u>	<u>(73,353)</u>	<u>(3,458)</u>
Gain/(loss) on oil and natural gas derivative financial instruments	<u>\$ (15,258)</u>	<u>\$ 43,273</u>	<u>\$ 38,607</u>	<u>\$ 46,694</u>



# Non-GAAP Reconciliations

## EBITDA and adjusted EBITDA reconciliations

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (496,433)	\$ 82,362	\$ (778,082)	\$ 104,303
Interest expense, net	20,369	13,679	37,133	28,495
Income tax expense	-	-	-	-
Depreciation, depletion and amortization	87,337	85,412	176,919	153,342
<b>EBITDA<sup>(1)</sup></b>	<b>\$ (388,727)</b>	<b>\$ 181,453</b>	<b>\$ (564,030)</b>	<b>\$ 286,140</b>
Accretion of discount on asset retirement obligations	964	933	1,911	1,790
Non-cash write down of oil and natural gas properties	428,801	-	704,665	-
Non-recurring other operating items	6,673	2,980	8,625	5,955
Equity income	(15,033)	(3,538)	(7,127)	(12,083)
Non-cash change in fair value of oil and natural gas derivative financial instruments	77,073	(20,056)	73,353	3,458
Stock based compensation expense	2,591	2,419	5,455	5,087
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>\$ 112,342</b>	<b>\$ 164,191</b>	<b>\$ 222,852</b>	<b>\$ 290,347</b>
Interest expense	(20,369)	(13,679)	(37,133)	(28,495)
Income tax expense	-	-	-	-
Amortization of deferred financing cost and premium on 2011 notes	4,690	1,800	6,440	3,747
Deferred income taxes	-	-	-	-
Non-recurring other operating items	(6,673)	(2,980)	(8,625)	(5,955)
Changes in operating assets and liabilities	45,355	(372)	96,934	(31,611)
<b>Net cash provided by operating activities</b>	<b>\$ 135,345</b>	<b>\$ 148,960</b>	<b>\$ 280,468</b>	<b>\$ 228,033</b>
Statement of cash flow data:				
Cash flow provided by (used in):				
Operating activities	\$ 135,345	\$ 148,960	\$ 280,468	\$ 228,033
Investing activities	(33,723)	(343,646)	(201,611)	(197,185)
Financing activities	(79,797)	251,344	(58,458)	(9,891)

## Non-GAAP Reconciliations

- (1) Earnings before interest, taxes, depreciation, depletion and amortization, or “EBITDA” represents net income adjusted to exclude interest expense, income taxes and depreciation, depletion and amortization. “Adjusted EBITDA” represents EBITDA adjusted to exclude non-recurring other operating items, accretion of discount on asset retirement obligations, non-cash changes in the fair value of derivatives, gains from early termination of derivatives, stock-based compensation and income or losses from equity method investments. 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 agreement and the indenture governing our 7.5% senior notes due September 15, 2018. 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.



## Non-GAAP Reconciliations

### TGGT Holdings, LLC (TGGT) EBITDA and adjusted EBITDA reconciliations

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Equity Income	\$ 15,033	\$ 3,538	\$ 7,127	\$ 12,083
Amortization of the difference in the historical basis of our contribution to TGGT	(402)	(402)	(804)	(804)
Equity loss of other investments	1,715	371	2,594	630
EXCO's share of TGGT net income	16,346	3,507	8,917	11,909
BG Group's share of TGGT net income	16,346	3,507	8,917	11,909
TGGT net income	\$ 32,692	\$ 7,014	\$ 17,834	\$ 23,818
Interest expense	2,683	2,324	6,557	3,867
Margin tax expense	30	384	268	719
Depreciation and amortization	6,942	6,328	14,823	12,232
TGGT EBITDA <sup>(1)</sup>	42,347	16,050	39,482	40,636
(Gain) loss on divestitures and non-recurring other operating items	-	13,460	37,598	13,460
TGGT Adjusted EBITDA <sup>(1)</sup>	\$ 42,347	\$ 29,510	\$ 77,080	\$ 54,096
EXCO's share of TGGT Adjusted EBITDA <sup>(2)</sup>	\$ 21,174	\$ 14,755	\$ 38,540	\$ 27,048

(1) Earnings before interest, taxes, depreciation, depletion and amortization, or "EBITDA" represents net income adjusted to exclude interest expense, income taxes and depreciation and amortization. "Adjusted EBITDA" represents EBITDA adjusted to exclude asset impairments, gains and losses on divestitures and non-recurring other operating items. 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. 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) Represents our 50% equity share in TGGT.



## Non-GAAP Reconciliations

### TGGT Holdings, LLC (TGGT) EBITDA and adjusted EBITDA reconciliations

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net Income (loss), GAAP	\$ 32,692	\$ 7,014	\$ 17,834	\$ 23,818
Adjustments:				
Loss on asset disposal	-	-	1,399	-
Asset impairment	-	13,460	35,343	13,460
Other non-cash items	-	-	856	-
Income taxes on above adjustments	-	-	-	-
Total adjustments, net of taxes	\$ -	\$ 13,460	\$ 37,598	\$ 13,460
Adjusted net income	\$ 32,692	\$ 20,474	\$ 55,432	\$ 37,278
EXCO's 50% share of TGGT's adjusted net income <sup>(1)</sup>	\$ 16,346	\$ 10,237	\$ 27,716	\$ 18,639

(1) TGGT's net income, computed in accordance with GAAP, includes certain items not typically included by securities analysts in published estimates of financial results. This table provides a reconciliation of GAAP net income to a non-GAAP measure of adjusted net income.