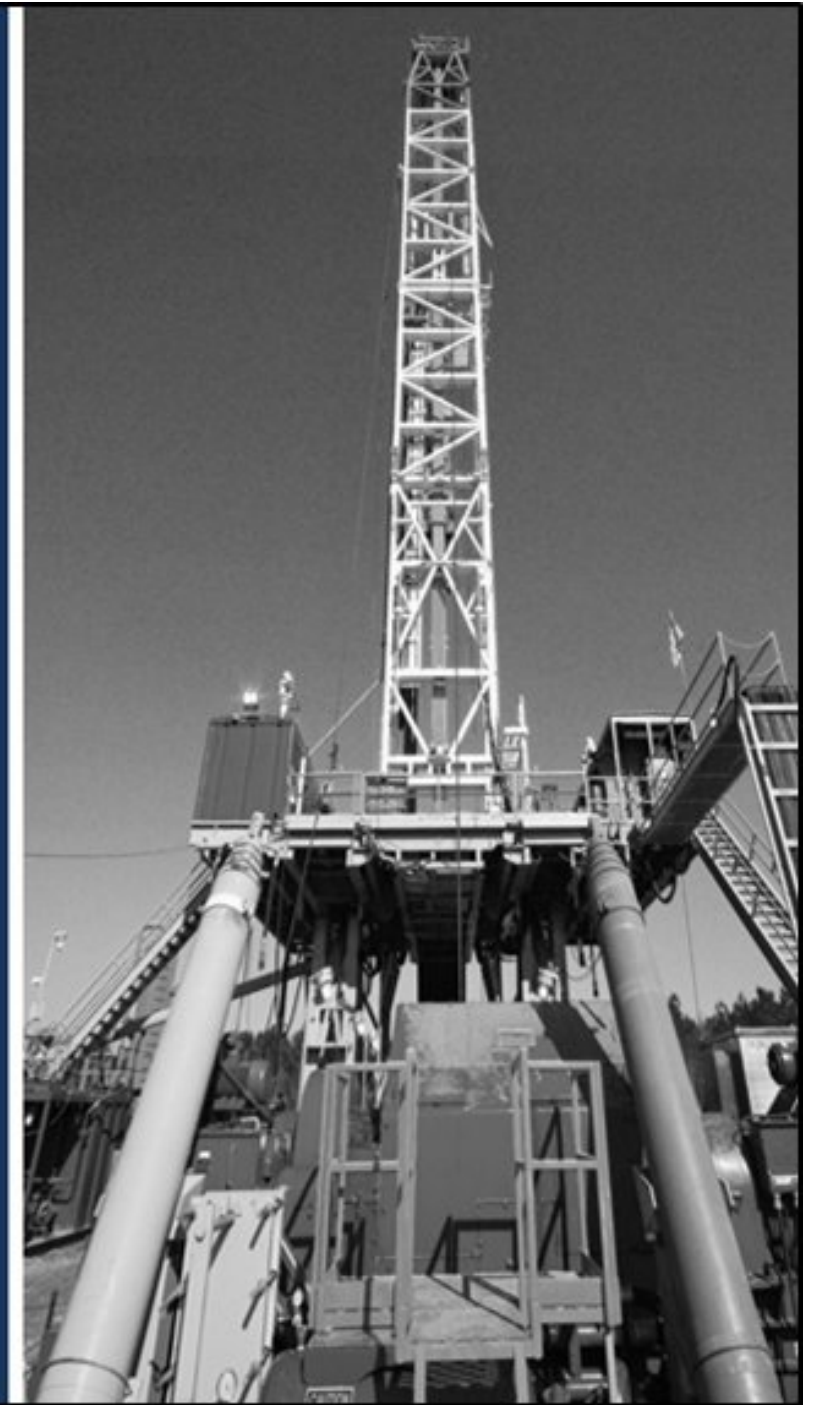




EXCO Resources, Inc.

Third Quarter 2016 Non-GAAP Reconciliations





Non-GAAP Reconciliations

EXCO believes that certain non-GAAP financial metrics are meaningful and useful to investors, analysts and rating agencies. In reporting the 2016 and 2015 financial results, EXCO disclosed the following non-GAAP financial measures:

- “Adjusted net loss”
- “Adjusted operating cash flow”
- “Free cash flow”
- “EBITDA (Earnings before interest, taxes, depreciation, depletion and amortization) and adjusted EBITDA”

These non-GAAP measures are reconciled to the appropriate GAAP financial metrics in the following tables:



Adjusted Net Loss and Adjusted Net Loss Reconciliations

(in thousands, except per share amounts)	Three Months Ended						Nine Months Ended			
	September 30, 2016		June 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
	Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share	Amount	Per share
Net income (loss), GAAP	\$ 50,936		\$ (111,347)		\$ (354,519)		\$ (190,559)		\$ (1,126,786)	
Adjustments:										
(Gain) loss on derivative financial instruments	(8,209)		36,432		(37,348)		11,632		(54,427)	
Gain on extinguishment of debt	(57,421)		(16,839)		—		(119,374)		—	
Cash receipts of derivative financial instruments	4,709		16,598		31,938		38,097		88,977	
Impairment of oil and natural gas properties	—		26,214		339,393		160,813		1,010,047	
Adjustments included in equity loss	25		—		195		7,891		1,031	
Other items impacting comparability	(1,062)		24,296		641		23,636		4,141	
Deferred finance cost amortization acceleration	417		—		2,007		1,430		4,771	
Income taxes on above adjustments (1)	24,616		(34,680)		(134,730)		(49,650)		(421,816)	
Adjustment to deferred tax asset valuation allowance (2)	(19,758)		44,987		141,808		77,289		450,714	
Total adjustments, net of taxes	(56,683)		97,008		343,904		151,764		1,083,438	
Adjusted net loss (5)	\$ (5,747)		\$ (14,339)		\$ (10,615)		\$ (38,795)		\$ (43,348)	
Net income (loss), GAAP (3)	\$ 50,936	\$ 0.18	\$ (111,347)	\$ (0.40)	\$ (354,519)	\$ (1.30)	\$ (190,559)	\$ (0.68)	\$ (1,126,786)	\$ (4.14)
Adjustments shown above (3)	(56,683)	(0.20)	97,008	0.35	343,904	1.26	151,764	0.54	1,083,438	3.98
Dilution attributable to equity-based payments (4)	—	—	—	—	—	—	—	—	—	—
Adjusted net loss (5)	\$ (5,747)	\$ (0.02)	\$ (14,339)	\$ (0.05)	\$ (10,615)	\$ (0.04)	\$ (38,795)	\$ (0.14)	\$ (43,348)	\$ (0.16)
<u>Common shares and equivalents used for net income (loss) per share:</u>										
Weighted average common shares outstanding	279,873		278,783		273,348		279,008		272,147	
Dilutive stock options	—		—		—		—		—	
Dilutive restricted shares and restricted share units	—		—		—		—		—	
Dilutive warrants	—		—		—		—		—	
Shares used to compute diluted loss per share for adjusted net loss	279,873		278,783		273,348		279,008		272,147	

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

(2) Deferred tax valuation allowance has been adjusted to reflect the assumed income tax rate of 40% for all periods.

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

(4) Represents dilution per share attributable to common share equivalents from in-the-money stock options and warrants, dilutive restricted shares and diluted restricted share units calculated in accordance with the treasury stock method.

(5) Adjusted net loss, a non-GAAP measure, includes adjustments for gains or losses from asset sales, unrealized gains or losses from derivative financial instruments, non-cash impairments, legal settlements and other items typically not included by securities analysts in published estimates. In previous periods, the Company added back severance costs in the determination of Adjusted net loss. As a result of a reduction in workforce that occurred in the second quarter 2016, management reassessed this measurement and determined it is no longer considered non-recurring. Accordingly, all periods for which Adjusted net loss is presented include severance costs.



Adjusted Operating Cash Flow and Free Cash Flow Reconciliations

(in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cash flow from operations, GAAP	\$ (49,665)	\$ 17,944	\$ 18,652	\$ (3,740)	\$ 126,856
Net change in working capital	60,351	(9,818)	18,572	26,825	(14,620)
Other operating items impacting comparability	—	—	641	402	4,141
Adjusted operating cash flow, non-GAAP measure (1)	<u>\$ 10,686</u>	<u>\$ 8,126</u>	<u>\$ 37,865</u>	<u>\$ 23,487</u>	<u>\$ 116,377</u>

- (1) Adjusted operating cash flow is presented because the Company believes it is a useful financial indicator for companies in its industry. This non-GAAP disclosure is widely accepted as a measure of an oil and natural gas company's ability to generate cash used to fund development and acquisition activities and service debt or pay dividends. Adjusted 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. Other operating items impacting comparability have been excluded as they do not reflect the Company's on-going operating activities. All periods for which Adjusted operating cash flow is presented include severance costs.

(in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Cash flow from operations, GAAP	\$ (49,665)	\$ 17,944	\$ 18,652	\$ (3,740)	\$ 126,856
Less: Additions to oil and natural gas properties, gathering assets and equipment	(15,492)	(22,477)	(65,108)	(70,455)	(269,708)
Free cash flow, non-GAAP measure (2)	<u>\$ (65,157)</u>	<u>\$ (4,533)</u>	<u>\$ (46,456)</u>	<u>\$ (74,195)</u>	<u>\$ (142,852)</u>

- (2) Free cash flow is cash flow from operating activities less capital expenditures. This non-GAAP measure is used predominantly as a forecasting tool to estimate cash available to fund indebtedness and other investments.



Consolidated EBITDA and Adjusted EBITDA Reconciliations

(in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2016	June 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income (loss)	\$ 50,936	\$ (111,347)	\$ (354,519)	\$ (190,559)	\$ (1,126,786)
Interest expense	16,997	17,932	27,761	54,186	80,822
Income tax expense	1,028	747	—	1,775	—
Depletion, depreciation and amortization	15,910	19,084	52,013	63,995	176,160
EBITDA (1)	\$ 84,871	\$ (73,584)	\$ (274,745)	\$ (70,603)	\$ (869,804)
Accretion of discount on asset retirement obligations	325	769	574	2,006	1,698
Impairment of oil and natural gas properties	—	26,214	339,393	160,813	1,010,047
Other items impacting comparability	(1,062)	24,296	641	23,636	4,141
Gain on extinguishment of debt	(57,421)	(16,839)	—	(119,374)	—
Equity loss	823	91	152	8,824	1,452
(Gain) loss on derivative financial instruments	(8,209)	36,432	(37,348)	11,632	(54,427)
Cash receipts of derivative financial instruments	4,709	16,598	31,938	38,097	88,977
Equity-based compensation expense	1,417	9,328	926	14,558	4,045
Adjusted EBITDA (1)	\$ 25,453	\$ 23,305	\$ 61,531	\$ 69,589	\$ 186,129
Interest expense	(16,997)	(17,932)	(27,761)	(54,186)	(80,822)
Current income tax expense	—	—	—	—	—
Amortization of deferred financing costs and discount	2,251	1,878	4,108	7,250	11,083
Other operating items impacting comparability and non-operating items	(21)	875	(654)	432	(4,154)
Changes in working capital	(60,351)	9,818	(18,572)	(26,825)	14,620
Net cash provided by (used in) operating activities	\$ (49,665)	\$ 17,944	\$ 18,652	\$ (3,740)	\$ 126,856

(1) Earnings Earnings before interest, taxes, depreciation, depletion and amortization (“EBITDA”) represents net income (loss) adjusted to exclude interest expense, income taxes and 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, non-cash impairments of assets, equity-based compensation, income or losses from equity method investments, legal settlements and other operating items impacting comparability. All periods for which Adjusted EBITDA is presented include severance costs.

EXCO has presented EBITDA and Adjusted EBITDA because they are measures widely used by investors, analysts and rating agencies for valuations, peer comparisons and investment recommendations. In addition, similar measures are used in covenant calculations required under the Company’s credit agreement (“Credit Agreement”), the indenture governing the 2018 Notes, the indenture governing the 2022 Notes and the term loan credit agreements governing the 12.5% senior secured second lien term loans due on October 26, 2020 (“Second Lien Term Loans”). Compliance with the liquidity and debt incurrence covenants included in these agreements is considered material to the Company. EXCO’s 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 the Company’s computations as compared to those of others. EBITDA and Adjusted EBITDA are measures that are not prescribed by 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 the Company’s operating, investing and financing activities. As such, investors are encouraged not to use these measures as substitutes for the determination of net income, net cash provided by operating activities or other similar GAAP measures. The calculation of EBITDA and Adjusted EBITDA as presented herein differ in certain respects from the calculation of comparable measures in the Credit Agreement, the indenture governing the 2018 Notes, the indenture governing the 2022 Notes and the term loan credit agreements governing the Second Lien Term Loans.