FORESTAR

FORESTAR GROUP INC.
CALCULATION OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED)

In our full year and fourth quarter 2011 earnings release and conference call presentation materials furnished to the Securities and Exchange Commission on Form 8-K on February 22, 2012, we used certain non-GAAP financial measures. The non-GAAP financial measures should not be relied upon to the exclusion of GAAP financial measures. These non-GAAP financial measures reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP financial statements and the accompanying reconciliations to corresponding GAAP financial measures, may provide a more complete understanding of our business. We strongly encourage investors to review our consolidated financial statements and publicly filed reports in their entirety.

Reconciliation of Non-GAAP Financial Measures (Unaudited)

The following table shows a reconciliation of PV-10 (discounted future net cash flows before income taxes) to the standardized measure of discounted future net cash flows (the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles, or GAAP). PV-10 is an estimate of the present value of future net cash flows from proved developed reserves after deducting estimated severance and ad valorem taxes, but before deducting any estimates of future income taxes. The estimated future net cash flows are discounted at an annual rate of 10%. A reconciliation of PV-10 to the standardized measure of discounted future net cash flows as computed under GAAP is illustrated below:

($ in 000's)	**Year-End 2011***	**Year-End 2010***
PV – 10 (discounted future net cash flows before income taxes)	$81,919	$45,267
Less: discounted future income taxes (effective tax rate of 38%)	(25,713)	(14,130)
Standardized measure of discounted future net cash flows	$56,206	$31,137

The undiscounted value represents an estimate of future net cash flows from proved developed reserves after deducting estimated severance and ad valorem taxes, but before deducting estimates of future income taxes. A reconciliation of undiscounted future net cash flows before income taxes to the undiscounted future net cash flows after income taxes is illustrated below:

($ in 000's)	**Year-End 2011***	**Year-End 2010***
Undiscounted future net cash flows before income taxes	$133,729	$77,464
Less: undiscounted future income taxes (effective tax rate of 38%)	(41,835)	(24,112)
Undiscounted future net cash flows after income taxes	$91,894	$53,352

We believe both PV-10 and undiscounted values are important for evaluating the relative significance of our oil and gas interests and that the presentation of the non-GAAP financial measures provides useful information to investors because they are widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. Because there are many unique factors that can impact an individual company when estimating the amount of future income taxes to be paid, we believe the use of a pre-tax measure is valuable for evaluating our mineral assets.

* Includes our share of proved developed reserves in equity-method ventures