

**GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

| | Three Months Ended | | Twelve Months Ended | |
|---|----------------------------|--------------------|----------------------------|--------------------|
| | <u>December 31,</u> | | <u>December 31,</u> | |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Revenues: | | | | |
| Gas sales | \$ 7,913 | \$ 13,358 | \$ 30,597 | \$ 68,314 |
| Operating fees and other | <u>95</u> | <u>133</u> | <u>367</u> | <u>780</u> |
| Total revenues | 8,008 | 13,491 | 30,964 | 69,094 |
| Expenses: | | | | |
| Total production expenses | 4,106 | 5,692 | 20,125 | 21,392 |
| Depreciation, depletion and amortization | 1,842 | 3,117 | 12,030 | 10,589 |
| Impairment of gas properties | 20,848 | 50,734 | 257,288 | 50,734 |
| General and administrative | 1,343 | 1,891 | 8,349 | 9,368 |
| Realized (gains) losses on derivative contracts | (2,068) | (1,521) | (10,694) | 500 |
| Unrealized (gains) losses on derivative contracts | <u>(1,530)</u> | <u>(4,173)</u> | <u>3,995</u> | <u>(4,993)</u> |
| Total operating expenses | 24,541 | 55,740 | 291,093 | 87,590 |
| Operating loss | (16,533) | (42,249) | (260,129) | (18,496) |
| Other expenses & interest, net | <u>(1,393)</u> | <u>(1,247)</u> | <u>(5,147)</u> | <u>(4,703)</u> |
| Loss before income taxes | (17,926) | (43,496) | (265,276) | (23,199) |
| Income tax benefit | <u>6,247</u> | <u>8,847</u> | <u>98,142</u> | <u>712</u> |
| Net loss | <u>\$ (11,679)</u> | <u>\$ (34,649)</u> | <u>\$(167,134)</u> | <u>\$ (22,487)</u> |
| Loss per share: | | | | |
| Net loss | | | | |
| Basic | <u>\$ (0.30)</u> | <u>\$ (0.89)</u> | <u>\$ (4.28)</u> | <u>\$ (0.58)</u> |
| Diluted | <u>\$ (0.30)</u> | <u>\$ (0.89)</u> | <u>\$ (4.28)</u> | <u>\$ (0.58)</u> |
| Weighted average number of common shares: | | | | |
| Basic | <u>39,148</u> | <u>38,885</u> | <u>39,085</u> | <u>38,857</u> |
| Diluted | <u>39,148</u> | <u>38,885</u> | <u>39,085</u> | <u>38,857</u> |

GEOMET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | <u>December 31, 2009</u> | <u>December 31, 2008</u> |
|--|------------------------------|------------------------------|
| Assets: | | |
| Current assets | \$ 9,054 | \$ 17,938 |
| Properties and equipment, net of accumulated depreciation, depletion, amortization and impairment of gas properties | 98,698 | 358,299 |
| Deferred income taxes | 51,805 | — |
| Other assets | 1,371 | 1,363 |
| Total assets | <u>\$ 160,928</u> | <u>\$ 377,600</u> |
| Liabilities and stockholders' equity: | | |
| Current liabilities | \$ 9,089 | \$ 19,379 |
| Long-term debt | 119,996 | 117,118 |
| Deferred income taxes | — | 43,842 |
| Other long-term liabilities | 4,935 | 4,829 |
| Total liabilities | <u>134,020</u> | <u>185,168</u> |
| Total stockholders' equity | <u>26,908</u> | <u>192,432</u> |
| Total liabilities and stockholders' equity | <u>\$ 160,928</u> | <u>\$ 377,600</u> |

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

| | Twelve Months Ended | |
|--|----------------------------|--------------------|
| | <u>December 31,</u> | |
| | <u>2009</u> | <u>2008</u> |
| Net cash provided by operating activities | \$ 8,518 | \$ 32,958 |
| Net cash used in investing activities | (12,696) | (52,719) |
| Net cash provided by financing activities | 2,888 | 20,493 |
| Effect of exchange rates changes on cash | <u>167</u> | <u>(176)</u> |
| (Decrease) increase in cash and cash equivalents | (1,123) | 556 |
| Cash and cash equivalents at beginning of period | <u>2,097</u> | <u>1,541</u> |
| Cash and cash equivalents at end of period | <u>\$ 974</u> | <u>\$ 2,097</u> |

**GEOMET, INC.
OPERATING STATISTICS**

| | Three Months Ended | | Twelve Months Ended | |
|--|---------------------------|-------------|----------------------------|-------------|
| | December 31, | | December 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Net sales volumes (MMcf) | 1,858 | 1,906 | 7,549 | 7,453 |
| Per Mcf data (\$/Mcf): | | | | |
| Average natural gas sales price | \$ 4.26 | \$ 7.01 | \$ 4.05 | \$ 9.17 |
| Differential to NYMEX (1) | \$ 0.09 | \$ 0.07 | \$ 0.07 | \$ 0.16 |
| Average natural gas sales price realized (2) | \$ 5.37 | \$ 7.81 | \$ 5.47 | \$ 9.10 |
| Adjusted lease operating expense (3)(4) | \$ 1.47 | \$ 1.98 | \$ 1.80 | \$ 1.88 |
| Compression expense | \$ 0.35 | \$ 0.42 | \$ 0.44 | \$ 0.41 |
| Transportation expense | \$ 0.17 | \$ 0.27 | \$ 0.22 | \$ 0.19 |
| Production taxes | \$ 0.17 | \$ 0.25 | \$ 0.16 | \$ 0.29 |
| Total production expenses, as adjusted (3) | \$ 2.16 | \$ 2.92 | \$ 2.62 | \$ 2.77 |
| Depletion | \$ 0.92 | \$ 1.55 | \$ 1.51 | \$ 1.35 |

| | Three Months Ended | | Twelve Months Ended | |
|---------------------------|---------------------------|-------------|----------------------------|-------------|
| | December 31, | | December 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| POND CREEK FIELD | | | | |
| Net sales volumes (MMcf) | 1,306 | 1,300 | 5,226 | 5,003 |
| Per Mcf data (\$/Mcf): | | | | |
| Lease operating expense | \$ 1.37 | \$ 1.56 | \$ 1.38 | \$ 1.54 |
| Compression expense | \$ 0.32 | \$ 0.43 | \$ 0.36 | \$ 0.39 |
| Transportation expense | \$ 0.24 | \$ 0.40 | \$ 0.31 | \$ 0.29 |
| Production taxes | \$ 0.15 | \$ 0.18 | \$ 0.13 | \$ 0.15 |
| Total production expenses | \$ 2.08 | \$ 2.57 | \$ 2.18 | \$ 2.37 |

| | | | | |
|--|---------|---------|---------|---------|
| GURNEE FIELD | | | | |
| Net sales volumes (MMcf) | 498 | 574 | 2,118 | 2,241 |
| Per Mcf data (\$/Mcf): | | | | |
| Adjusted lease operating expense (3) | \$ 1.39 | \$ 2.46 | \$ 2.29 | \$ 2.63 |
| Compression expense | \$ 0.28 | \$ 0.36 | \$ 0.49 | \$ 0.48 |
| Production taxes | \$ 0.25 | \$ 0.42 | \$ 0.23 | \$ 0.56 |
| Total production expenses, as adjusted (3) | \$ 1.92 | \$ 3.24 | \$ 3.01 | \$ 3.67 |

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- (1) The difference between the average natural gas price for the period, before the impact of gain and losses on derivative contract, and the final average settlement price for natural gas contracts on the New York Mercantile Exchange ("NYMEX") for each month during the applicable period weighted by gas sales volumes
- (2) Average realized price includes the effects of realized gains and losses on derivative contracts.
- (3) Produced water disposal fees are recorded as operating fees and other on the Statements of Operations. Lease operating expense per Mcf has been adjusted for produced water disposal fees because the fees are not reflected in the net gas sales volumes. See Reconciliation of Adjusted Lease Operating Expense.

- (4) The 2009 adjusted lease operating expenses include lease operating expenses in three new areas, the Garden City prospect, the Lasher field and the Peace River field, none of which had meaningful operations during the prior year period. Per unit operating expenses are generally higher in the initial start up of a new field before economies of scale have been realized.

GEOMET, INC.
CONSOLIDATED DERIVATIVE CONTRACT POSITIONS

At December 31, 2009, the Company had the following natural gas collar positions:

| Period | Volume (MMBtu) | Sold Ceiling | Bought Floor | Sold Floor |
|----------------------------------|---------------------------|-------------------------|-------------------------|-----------------------|
| January 2010 through March 2010 | 540,000 | \$ 11.20 | \$ 9.50 | \$ 7.00 |
| January 2010 through March 2010 | 360,000 | \$ 6.65 | \$ 5.50 | \$ 3.50 |
| April through October 2010 | 856,000 | \$ 6.80 | \$ 5.50 | \$ 3.50 |
| April through October 2010 | 856,000 | \$ 6.35 | \$ 5.50 | \$ - |
| November 2010 through March 2011 | 604,000 | \$ 7.45 | \$ 6.50 | \$ - |

At December 31, 2009, the Company had the following natural gas swap positions:

| Period | Volume (MMBtu) | Price |
|----------------------------------|---------------------------|--------------|
| April through October 2010 | 856,000 | \$ 5.70 |
| April through October 2010 | 642,000 | \$ 6.30 |
| November 2010 through March 2011 | 604,000 | \$ 6.67 |
| November 2010 through March 2011 | 906,000 | \$ 7.27 |
| April 2011 through October 2011 | 856,000 | \$ 6.37 |
| November 2011 through March 2012 | 608,000 | \$ 7.12 |

At December 31, 2009, the Company had the following interest rate swap positions:

| Description | Effective date | Designated maturity date | Fixed rate (2) | Notional amount |
|------------------------|-----------------------|-------------------------------------|---------------------------|----------------------------|
| Floating-to-fixed swap | 12/14/2007 | 12/14/2010 | 3.86% | \$ 15,000,000 |
| Floating-to-fixed swap | 1/3/2008 | 1/4/2010 | 3.95% | \$ 10,000,000 |
| Floating-to-fixed swap | 3/25/2008 | 3/25/2010 | 2.38% | \$ 10,000,000 |
| Floating-to-fixed swap | 5/13/2008 | 5/13/2010 | 3.07% | \$ 5,000,000 |
| Floating-to-fixed swap | 1/6/2009 | 1/6/2011 | 1.38% | \$ 5,000,000 |

(2) The floating rate paid by the counterparty is the British Bankers' Association LIBOR rate.

GEOMET, INC.
RECONCILIATION OF ADJUSTED EBITDA TO NET LOSS

(In thousands)

| | Three Months Ended | | Twelve Months Ended | |
|--|----------------------------|--------------------|----------------------------|--------------------|
| | <u>December 31,</u> | | <u>December 31,</u> | |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Net loss | \$ (11,679) | \$ (34,649) | \$(167,134) | \$ (22,487) |
| Add: Interest expense, net of interest income and amounts capitalized | 1,380 | 1,237 | 5,146 | 4,739 |
| Add (Deduct): Other expense (income) | 13 | 10 | 1 | (36) |
| (Deduct): Income tax benefit | (6,247) | (8,847) | (98,142) | (712) |
| Add: Depreciation, depletion and amortization | 1,842 | 3,117 | 12,030 | 10,589 |
| Add: Impairment of gas properties | 20,848 | 50,734 | 257,288 | 50,734 |
| Add: Unrealized (gains) losses on derivative contracts | (1,530) | (4,173) | 3,995 | (4,993) |
| Add: Stock based compensation | 131 | 81 | 793 | 566 |
| Add: Accretion expense | <u>108</u> | <u>107</u> | <u>432</u> | <u>365</u> |
| Adjusted EBITDA | <u>\$ 4,866</u> | <u>\$ 7,617</u> | <u>\$ 14,409</u> | <u>\$ 38,765</u> |

The table above reconciles net loss to Adjusted EBITDA. Adjusted EBITDA is defined as net loss before net interest expense, other non-operating income, income taxes, depreciation, depletion and amortization, and impairment of gas properties before unrealized (gains) losses on derivative contracts, stock-based compensation and accretion expense. Although Adjusted EBITDA is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States of America (GAAP), management believes that it is useful to GeoMet and to an investor in evaluating our company because it is a widely used measure to evaluate a company's operating performance.

GEOMET, INC.
RECONCILIATION OF ADJUSTED NET INCOME (LOSS) TO NET LOSS

(In thousands)

| | Three Months Ended | | Twelve Months Ended | |
|---|----------------------------|--------------------|----------------------------|--------------------|
| | <u>December 31,</u> | | <u>December 31,</u> | |
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Net loss | \$ (11,679) | \$ (34,649) | \$ (167,134) | \$ (22,487) |
| Impairment of gas properties | 20,848 | 50,734 | 257,288 | 50,734 |
| Unrealized (gains) losses on derivative contracts, net of tax | (1,530) | (4,173) | 3,995 | (4,993) |
| Accelerated depletion - Canada | — | — | 2,742 | — |
| Effect of income taxes | <u>(7,444)</u> | <u>(10,494)</u> | <u>(99,154)</u> | <u>(10,181)</u> |
| Adjusted Net Income (Loss) | <u>\$ 195</u> | <u>\$ 1,418</u> | <u>\$ (2,263)</u> | <u>\$ 13,073</u> |

The table above reconciles net loss to Adjusted Net Income (Loss). Adjusted Net Income (Loss) is calculated by eliminating unrealized (gains) losses on derivative contracts from net loss, non-cash accelerated depletion and impairments to our gas properties, and their related tax effects to arrive at Adjusted Net Income (Loss). The tax effects are determined by calculating the tax provision for GAAP net loss and comparing the results to the tax provision for Adjusted Net Income (Loss), which excludes the adjusting items. The difference in the tax provision calculations represents the effect of income taxes. The calculation is performed at the end of each quarter and, as a result, the tax rates for each discrete period are different. Although Adjusted Net Income (Loss) is a non-GAAP measure, we believe it is useful information for investors because the unrealized (gains) losses relate to derivative contracts that hedge our production in future months. The (gains) losses associated with derivative contracts that hedge current production are recognized in net loss and are not eliminated in determining Adjusted Net Income (Loss). The adjustment better matches (gains) losses on derivative contracts with the period when the underlying hedged production occurs.

GEOMET, INC.
RECONCILIATION OF ADJUSTED LEASE OPERATING EXPENSE

(In thousands)

| | Three Months Ended | | Twelve Months Ended | |
|--------------------------------------|---------------------------|-----------------|----------------------------|------------------|
| | December 31, | | December 31, | |
| | 2009 | 2008 | 2009 | 2008 |
| Lease operating expense | \$ 2,822 | \$ 3,890 | \$ 13,935 | \$ 14,757 |
| Deduct: Produced water disposal fees | 95 | 133 | 367 | 780 |
| Adjusted lease operating expense | <u>\$ 2,727</u> | <u>\$ 3,757</u> | <u>\$ 13,568</u> | <u>\$ 13,977</u> |

The table above reconciles lease operating expense to adjusted lease operating expense. Adjusted lease operating expense is calculated by eliminating the produced water disposal fees from lease operating expense to arrive at adjusted lease operating expense. Although adjusted lease operating expense is a non-GAAP measure, we believe it is useful information for investors because produced water disposal fees are recorded as operating fees and other on the Statements of Operations. Lease operating costs per Mcf are adjusted for produced water disposal fees because the fees are not reflected in the net gas sales price. The adjustment better matches lease operating expense with the natural gas sales revenues it is associated with.