

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues:				
Gas sales	\$ 7,661	\$ 6,838	\$ 17,545	\$ 16,290
Operating fees and other	<u>71</u>	<u>77</u>	<u>145</u>	<u>175</u>
Total revenues	7,732	6,915	17,690	16,465
Expenses:				
Total production expenses	4,176	4,954	8,495	11,339
Depreciation, depletion and amortization	1,450	1,982	3,096	5,018
Impairment of gas properties	—	27,582	—	167,295
General and administrative	1,315	2,181	2,793	5,154
Terminated transaction costs	1,403	—	1,403	—
Realized gains on derivative contracts	(2,211)	(2,734)	(3,671)	(5,457)
Unrealized losses (gains) on derivative contracts	<u>2,974</u>	<u>2,144</u>	<u>(4,668)</u>	<u>1,958</u>
Total operating expenses	9,107	36,109	7,448	185,307
Operating (loss) income	(1,375)	(29,194)	10,242	(168,842)
Other expenses & interest, net	<u>(1,418)</u>	<u>(1,404)</u>	<u>(2,654)</u>	<u>(2,378)</u>
(Loss) income before income taxes	(2,793)	(30,598)	7,588	(171,220)
Income tax benefit (expense)	<u>1,031</u>	<u>11,212</u>	<u>(3,323)</u>	<u>64,108</u>
Net (loss) income	<u>\$ (1,762)</u>	<u>\$ (19,386)</u>	<u>\$ 4,265</u>	<u>\$ (107,112)</u>
(Loss) income per share:				
Net (loss) income				
Basic	<u>\$ (0.04)</u>	<u>\$ (0.50)</u>	<u>\$ 0.11</u>	<u>\$ (2.75)</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ (0.50)</u>	<u>\$ 0.11</u>	<u>\$ (2.75)</u>
Weighted average number of common shares:				
Basic	<u>39,241</u>	<u>39,123</u>	<u>39,200</u>	<u>39,024</u>
Diluted	<u>39,241</u>	<u>39,123</u>	<u>39,291</u>	<u>39,024</u>

GEOMET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Assets:		
Current assets	\$ 11,854	\$ 9,054
Properties and equipment, net of accumulated depreciation, depletion, amortization and impairment of gas properties	100,530	98,698
Deferred income taxes	49,712	51,805
Other assets	2,162	1,371
Total assets	<u>\$ 164,258</u>	<u>\$ 160,928</u>
Liabilities and stockholders' equity:		
Current liabilities	\$ 11,033	\$ 9,089
Long-term debt	116,406	119,996
Other long-term liabilities	5,184	4,935
Total liabilities	<u>132,623</u>	<u>134,020</u>
Total stockholders' equity	<u>31,635</u>	<u>26,908</u>
Total liabilities and stockholders' equity	<u>\$ 164,258</u>	<u>\$ 160,928</u>

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended	
	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Net cash provided by operating activities	\$ 8,475	\$ 3,243
Net cash used in investing activities	(4,061)	(9,302)
Net cash (used in) provided by financing activities	(4,906)	5,173
Effect of exchange rates changes on cash	<u>12</u>	<u>10</u>
Decrease in cash and cash equivalents	(480)	(876)
Cash and cash equivalents at beginning of period	<u>974</u>	<u>2,097</u>
Cash and cash equivalents at end of period	<u><u>\$ 494</u></u>	<u><u>\$ 1,221</u></u>

**GEOMET, INC.
OPERATING STATISTICS**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net sales volumes (MMcf)	1,824	1,903	3,644	3,790
Per Mcf data (\$/Mcf):				
Average natural gas sales price	\$ 4.20	\$ 3.59	\$ 4.81	\$ 4.30
Differential to NYMEX (1)	\$ 0.11	\$ (0.04)	\$ 0.12	\$ 0.04
Average natural gas sales price realized (2)	\$ 5.41	\$ 5.03	\$ 5.82	\$ 5.74
Adjusted lease operating expense (3)(4)	\$ 1.50	\$ 1.72	\$ 1.58	\$ 2.04
Compression expenses	\$ 0.42	\$ 0.50	\$ 0.40	\$ 0.47
Transportation expense	\$ 0.17	\$ 0.22	\$ 0.18	\$ 0.27
Production taxes	\$ 0.16	\$ 0.13	\$ 0.14	\$ 0.16
Total production expenses, as adjusted (3)	\$ 2.25	\$ 2.57	\$ 2.30	\$ 2.94
Depletion	\$ 0.72	\$ 0.96	\$ 0.78	\$ 1.24

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
POND CREEK FIELD				
Net sales volumes (MMcf)	1,319	1,312	2,614	2,603
Per Mcf data (\$/Mcf):				
Lease operating expense	\$ 1.27	\$ 1.14	\$ 1.30	\$ 1.44
Compression expense	\$ 0.42	\$ 0.41	\$ 0.38	\$ 0.36
Transportation expense	\$ 0.23	\$ 0.31	\$ 0.24	\$ 0.38
Production taxes	\$ 0.15	\$ 0.10	\$ 0.16	\$ 0.13
Total production expenses	\$ 2.07	\$ 1.96	\$ 2.08	\$ 2.31

GURNEE FIELD				
Net sales volumes (MMcf)	466	537	941	1,109
Per Mcf data (\$/Mcf):				
Adjusted lease operating expense (3)(4)	\$ 2.12	\$ 2.60	\$ 2.05	\$ 2.75
Compression expense	\$ 0.38	\$ 0.58	\$ 0.38	\$ 0.52
Production taxes (5)	\$ 0.20	\$ 0.18	\$ 0.06	\$ 0.59
Total production expenses, as adjusted (3)	\$ 2.70	\$ 3.36	\$ 2.49	\$ 3.86

- (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 on derivative contracts.
- (3) Produced water disposal fees are recorded as operating fees and other on the Statement of Operations. Lease operating expense per Mcf has been adjusted for produced water disposal fees because the fees serve to offset operating expenses. See Reconciliation of Adjusted Lease Operating Expense.

- (4) The decrease in adjusted lease operating expense since prior year is primarily due to a company-wide cost reduction strategy implemented in April 2009.
- (5) The decrease in production taxes per Mcf for the six months ended June 30, 2010 was due to a refund received in March 2010 for production taxes related to our Gurnee field.

GEOMET, INC.
CONSOLIDATED DERIVATIVE CONTRACT POSITIONS

At June 30, 2010, the Company had the following natural gas collar positions:

<u>Period</u>	<u>Volume (MMBtu)</u>	<u>Sold Ceiling</u>	<u>Bought Floor</u>	<u>Sold Floor</u>
July through October 2010	492,000	\$ 6.80	\$ 5.50	\$ 3.50
July through October 2010	492,000	\$ 6.35	\$ 5.50	-
November 2010 through March 2011	<u>604,000</u>	\$ 7.45	\$ 6.50	-
	<u>1,588,000</u>			

At June 30, 2010, the Company had the following natural gas swap positions:

<u>Period</u>	<u>Volume (MMBtu)</u>	<u>Price</u>
July through October 2010	492,000	\$ 5.70
July through October 2010	369,000	\$ 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
April 2011 through October 2011	856,000	\$ 5.37
April 2011 through October 2011	856,000	\$ 5.43
November 2011 through March 2012	608,000	\$ 7.12
November 2011 through March 2012	608,000	\$ 6.12
April 2012 through October 2012	856,000	\$ 5.73
November 2012 through March 2013	<u>604,000</u>	\$ 6.42
	<u>7,615,000</u>	\$ 6.42

At June 30, 2010, the Company had the following interest rate swap positions:

<u>Description</u>	<u>Effective date</u>	<u>Designated maturity date</u>	<u>Fixed rate (1)</u>	<u>Notional amount</u>
Floating-to-fixed swap	12/14/2007	12/14/2010	3.86 %	\$ 15,000,000
Floating-to-fixed swap	1/6/2009	1/6/2011	1.38 %	\$ <u>5,000,000</u>
				\$ <u>20,000,000</u>

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

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

(In thousands)

	Three Months Ended		Six Months Ended	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net (loss) income	\$ (1,762)	\$ (19,386)	\$ 4,265	\$ (107,112)
Add: Interest expense, net of interest income and amounts capitalized	1,419	1,413	2,637	2,386
Add (Deduct): Other (income) expense	(1)	(9)	17	(8)
Add (Deduct): Income tax (benefit) expense	(1,031)	(11,212)	3,323	(64,108)
Add : Depreciation, depletion and amortization	1,450	1,982	3,096	5,018
Add: Impairment of gas properties	—	27,582	—	167,295
Add: Unrealized losses (gains) on derivative contracts	2,974	2,144	(4,668)	1,958
Add: Stock based compensation	90	189	80	501
Add: Accretion expense	<u>121</u>	<u>105</u>	<u>241</u>	<u>213</u>
Adjusted EBITDA	<u>\$ 3,260</u>	<u>\$ 2,808</u>	<u>\$ 8,991</u>	<u>\$ 6,143</u>

The table above reconciles net (loss) income to Adjusted EBITDA. Adjusted EBITDA is defined as net (loss) income before net interest expense, other non-operating income, income taxes, depreciation, depletion and amortization before unrealized losses (gains) 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) INCOME

(In thousands)

	Three Months Ended		Six Months Ended	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net (loss) income	\$ (1,762)	\$ (19,386)	\$ 4,265	\$ (107,112)
Impairment of gas properties	—	27,582	—	167,295
Unrealized losses (gains) on derivative contracts, net of tax	2,974	2,144	(4,668)	1,958
Terminated transaction costs	1,403	—	1,403	—
Effect of income taxes	<u>(1,672)</u>	<u>(11,164)</u>	<u>1,247</u>	<u>(63,952)</u>
Adjusted Net Income (Loss)	<u>\$ 943</u>	<u>\$ (824)</u>	<u>\$ 2,247</u>	<u>\$ (1,811)</u>

The table above reconciles net (loss) income to Adjusted Net Income (Loss). Adjusted Net Income (Loss) is calculated by eliminating unrealized losses (gains) on derivative contracts from net (loss) income, impairments to our gas properties, terminated transaction costs, 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) income 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 losses (gains) relate to derivative contracts that hedge our production in future months. The gains associated with derivative contracts that hedge current production are recognized in net (loss) income and are not eliminated in determining Adjusted Net Income (Loss). The adjustment better matches losses (gains) 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		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Lease operating expense	\$ 2,813	\$ 3,348	\$ 5,920	\$ 7,918
Deduct: Produced water disposal fees	71	77	145	175
Adjusted lease operating expense	<u>\$ 2,742</u>	<u>\$ 3,271</u>	<u>\$ 5,775</u>	<u>\$ 7,743</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 Statement of Operations. Lease operating costs per Mcf are adjusted for produced water disposal fees because the fees serve to offset operating expenses. The adjustment better matches lease operating expense with the natural gas sales revenues it is associated with.