

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues:				
Gas sales	\$ 8,520	\$ 8,239	\$ 24,702	\$ 25,784
Operating fees and other	<u>65</u>	<u>77</u>	<u>210</u>	<u>223</u>
Total revenues	8,585	8,316	24,912	26,007
Expenses:				
Total production expenses	4,493	4,200	12,915	12,696
Depreciation, depletion and amortization	1,888	1,561	5,142	4,657
General and administrative	1,157	1,206	4,099	3,999
Acquisition costs	371	—	371	—
Terminated transaction costs	—	—	—	1,403
Realized gains on natural gas derivative contracts	(1,682)	(1,825)	(6,715)	(5,496)
Unrealized (gains) losses on natural gas derivative contracts	<u>(2,544)</u>	<u>(5,096)</u>	<u>109</u>	<u>(9,764)</u>
Total operating expenses	3,683	46	15,921	7,495
Operating income	4,902	8,270	8,991	18,512
Unrealized gain from change in fair value of derivative liability	—	1,596	—	1,596
Other expenses & interest, net	<u>(852)</u>	<u>(1,526)</u>	<u>(2,511)</u>	<u>(4,180)</u>
Income before income taxes	4,050	8,340	6,480	15,928
Income tax expense	<u>(1,620)</u>	<u>(3,813)</u>	<u>(2,527)</u>	<u>(7,136)</u>
Net income	<u>\$ 2,430</u>	<u>\$ 4,527</u>	<u>\$ 3,953</u>	<u>\$ 8,792</u>
Accretion of Preferred Stock	(449)	(73)	(1,309)	(73)
Cash Dividends Paid on Preferred Stock	(1)	—	(2)	—
PIK Dividends on Preferred Stock	<u>(1,378)</u>	<u>(236)</u>	<u>(4,010)</u>	<u>(236)</u>
Net income (loss) available to common stockholders	<u>\$ 602</u>	<u>\$ 4,218</u>	<u>\$ (1,368)</u>	<u>\$ 8,483</u>
Earnings (loss) per share:				
Net income (loss) per common share:				
Basic	<u>\$ 0.02</u>	<u>\$ 0.11</u>	<u>\$ (0.03)</u>	<u>\$ 0.22</u>
Diluted	<u>\$ 0.02</u>	<u>\$ 0.10</u>	<u>\$ (0.03)</u>	<u>\$ 0.21</u>
Weighted average number of common shares:				
Basic	<u>39,640</u>	<u>39,321</u>	<u>39,577</u>	<u>39,242</u>

GEOMET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 463	\$ 537
Accounts receivable	2,472	2,600
Inventory	621	1,002
Derivative asset – natural gas contracts	7,121	7,088
Other current assets	<u>1,116</u>	<u>952</u>
Total current assets	<u>11,793</u>	<u>12,179</u>
Property and equipment - net	114,511	106,087
Other noncurrent assets:		
Derivative asset – natural gas contracts	2,044	2,187
Deferred income taxes	45,855	48,203
Other	<u>770</u>	<u>1,430</u>
Total other noncurrent assets	<u>48,669</u>	<u>51,820</u>
TOTAL ASSETS	<u><u>\$ 174,973</u></u>	<u><u>\$ 170,086</u></u>
 LIABILITIES, MEZZANINE AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 5,888	\$ 5,950
Accrued liabilities	1,747	2,306
Deferred income taxes	2,373	2,207
Derivative liability – interest rate swaps	—	5
Asset retirement liability	32	33
Current portion of long-term debt	<u>90</u>	<u>133</u>
Total current liabilities	<u>10,130</u>	<u>10,634</u>
Long-term debt	81,295	80,863
Asset retirement liability	5,932	5,466
Other long-term accrued liabilities	<u>16</u>	<u>41</u>
Total liabilities	<u>97,373</u>	<u>97,004</u>
Mezzanine equity:		
Series A Convertible Redeemable Preferred Stock	<u>27,263</u>	<u>22,074</u>
Stockholders' equity	<u>50,337</u>	<u>51,008</u>
TOTAL LIABILITIES, MEZZANINE AND STOCKHOLDERS' EQUITY	<u><u>\$ 174,973</u></u>	<u><u>\$ 170,086</u></u>

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended	
	September 30,	
	<u>2011</u>	<u>2010</u>
Net cash provided by operating activities	\$ 11,583	\$ 11,651
Net cash used in investing activities	(11,873)	(7,283)
Net cash provided by (used in) financing activities	216	(4,656)
Effect of exchange rates changes on cash	<u>-</u>	<u>12</u>
Decrease in cash and cash equivalents	(74)	(276)
Cash and cash equivalents at beginning of period	<u>537</u>	<u>974</u>
Cash and cash equivalents at end of period	<u>\$ 463</u>	<u>\$ 698</u>

**GEOMET, INC.
OPERATING STATISTICS**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales volumes (MMcf)	1,940	1,845	5,619	5,490
Per Mcf data (\$/Mcf):				
Average natural gas sales price	\$ 4.39	\$ 4.47	\$ 4.40	\$ 4.70
Differential to NYMEX (1)	\$ 0.20	\$ 0.08	\$ 0.19	\$ 0.10
Average natural gas sales price realized (2)	\$ 5.26	\$ 5.45	\$ 5.59	\$ 5.70
Adjusted lease operating expense (3)	\$ 1.52	\$ 1.52	\$ 1.54	\$ 1.56
Compression expenses	\$ 0.39	\$ 0.42	\$ 0.36	\$ 0.41
Transportation expense	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17
Production taxes (4)	\$ 0.20	\$ 0.12	\$ 0.19	\$ 0.13
Total production expenses, as adjusted (3)	\$ 2.28	\$ 2.23	\$ 2.26	\$ 2.27
Depletion	\$ 0.93	\$ 0.78	\$ 0.86	\$ 0.78

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
POND CREEK FIELD				
Net sales volumes (MMcf)	1,439	1,349	4,148	3,962
Per Mcf data (\$/Mcf):				
Adjusted lease operating expense (3)	\$ 1.12	\$ 1.17	\$ 1.16	\$ 1.25
Compression expense	\$ 0.37	\$ 0.42	\$ 0.34	\$ 0.39
Transportation expense	\$ 0.22	\$ 0.23	\$ 0.22	\$ 0.24
Production taxes	\$ 0.21	\$ 0.16	\$ 0.19	\$ 0.17
Total production expenses	\$ 1.92	\$ 1.98	\$ 1.91	\$ 2.05

GURNEE FIELD				
Net sales volumes (MMcf)	453	455	1330	1,395
Per Mcf data (\$/Mcf):				
Adjusted lease operating expense (3)	\$ 2.66	\$ 2.37	\$ 2.62	\$ 2.15
Compression expense	\$ 0.39	\$ 0.45	\$ 0.36	\$ 0.40
Production taxes (4)	\$ 0.20	\$ 0.01	\$ 0.21	\$ 0.05
Total production expenses, as adjusted (3)	\$ 3.25	\$ 2.83	\$ 3.19	\$ 2.60

- (1) The difference between the average natural gas price for the period, before the impact of gains and losses on natural gas derivative contracts, 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 cash settlements from natural gas derivative
- (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 are not reflected in the net gas sales volumes. See Reconciliation of Adjusted Lease Operating Expense.
- (4) The increase in production taxes per Mcf was due to refunds received in March and August 2010 for production taxes related to our Gurnee field.

GEOMET, INC.
CONSOLIDATED DERIVATIVE CONTRACT POSITIONS

At September 30, 2011, the Company had the following natural gas swap position:

Period	Volume (MMBtu)	Price
October 2011	124,000	\$ 6.37
October 2011	124,000	\$ 5.37
October 2011	124,000	\$ 5.43
November 2011 through March 2012	608,000	\$ 7.12
November 2011 through March 2012	608,000	\$ 6.12
November 2011 through March 2012	912,000	\$ 5.08
April 2012 through October 2012	856,000	\$ 5.73
April 2012 through October 2012	1,712,000	\$ 4.94
November 2012 through March 2013	604,000	\$ 6.42
November 2012 through March 2013	<u>906,000</u>	\$ 5.50
	<u>6,578,000</u>	

Our production is sold at an “all-in” price which includes the market price for natural gas plus a “basis differential”. In January 2011, we agreed to sell gross volumes of 16,000 MMBtu/day of natural gas from our Pond Creek field for the period February 2011 through March 2012 through a forward physical sale contract with our existing purchaser at a price equal to the last day settlement price for the NYMEX contract for the month of sale plus a basis differential of \$0.15, \$0.115, and \$0.13 for the periods February 2011 through March 2011, April 2011 through October 2011, and November 2011 through March 2012, respectively. As of September 30, 2011, we fixed the NYMEX settle on a portion of the aforementioned forward sale as follows:

Period	Volume (MMBtu)	Fixed Market Price	Fixed Basis Differential	All-In Price
October 2011	124,000	\$ 4.80	\$ 0.115	\$4.915
November 2011 through March 2012	<u>456,000</u>	\$ 5.20	\$ 0.130	\$5.330
	<u>580,000</u>			

The remaining volumes giving effect for the fixed amounts denoted above are as follows:

Period	Volume (MMBtu)	Fixed Basis Differential
October 2011	372,000	\$ 0.115
November 2011 through March 2012	<u>1,976,000</u>	\$ 0.130
	<u>2,348,000</u>	

GEOMET, INC.
RECONCILIATION OF ADJUSTED EBITDA TO NET INCOME

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income	\$ 2,430	\$ 4,527	\$ 3,953	\$ 8,792
Add: Interest expense, net of interest income and amounts capitalized	865	1,502	2,519	4,138
(Deduct) Add: Other (income) expense	(13)	25	(8)	42
Add: Income tax expense	1,620	3,813	2,527	7,136
Add : Depreciation, depletion and amortization	1,888	1,561	5,142	4,657
(Deduct) Add: Unrealized (gains) losses on natural gas derivative contracts	(2,544)	(5,096)	109	(9,764)
(Deduct): Unrealized gain from change in fair value of derivative liability – Series A Convertible Redeemable Preferred Stock	—	(1,596)	—	(1,596)
Add: Stock based compensation	124	222	576	302
Add: Accretion expense	<u>137</u>	<u>121</u>	<u>409</u>	<u>363</u>
Adjusted EBITDA	<u>\$ 4,507</u>	<u>\$ 5,079</u>	<u>\$ 15,227</u>	<u>\$ 14,070</u>

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

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net income	\$ 2,430	\$ 4,527	\$ 3,953	\$ 8,792
Unrealized (gains) losses on natural gas derivative contracts, net of tax	(2,544)	(5,096)	109	(9,764)
Unrealized gain from change in fair value of derivative liability – Series A Convertible Redeemable Preferred Stock	—	(1,596)	—	(1,596)
Acquisition costs	371	—	371	—
Terminated transaction costs	—	—	—	1,403
Effect of income taxes	<u>830</u>	<u>2,557</u>	<u>(184)</u>	<u>3,803</u>
Adjusted Net Income	<u>\$ 1,087</u>	<u>\$ 392</u>	<u>\$ 4,249</u>	<u>\$ 2,638</u>

The table above reconciles Adjusted Net Income to net income. Adjusted Net Income is calculated by eliminating unrealized (gains) losses on natural gas derivative contracts from net income, acquisition costs, terminated transaction costs, and their related tax effects to arrive at Adjusted Net Income. The tax effects are determined by calculating the tax provision for GAAP net income and comparing the results to the tax provision for Adjusted Net Income, 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 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 associated with derivative contracts that hedge current production are recognized in net income and are not eliminated in determining Adjusted Net Income. The adjustment better matches (gains) losses on natural gas derivative contracts with the period when the underlying hedged production occurs.

GEOMET, INC.
RECONCILIATION OF ADJUSTED LEASE OPERATING EXPENSE

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Lease operating expense	\$ 3,019	\$ 2,877	\$ 8,871	\$ 8,798
Deduct: Produced water disposal fees	65	77	211	222
Adjusted lease operating expense	<u>\$ 2,954</u>	<u>\$ 2,800</u>	<u>\$ 8,660</u>	<u>\$ 8,576</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 are not reflected in the net gas sales price. The adjustment better matches lease operating expense to the natural gas sales revenue with which it is associated.