



# Company Presentation

February 2012

# Forward Looking Statements

This presentation includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements give our current expectations or forecasts of future events. They include estimates of our natural gas reserves and resources, expected natural gas production and future expenses, assumptions regarding future natural gas prices, budgeted capital expenditures for drilling and other anticipated cash outflows, as well as statements concerning anticipated cash flow and liquidity, business strategy and other plans and objectives for future operations. Disclosures of the estimated realized effects of our hedging positions on natural gas sales are based upon market prices that are subject to significant volatility. We can give no assurance that our Forward Looking Statements will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties.

Factors that could cause actual results to differ materially from expected results are described under "Risks Factors" in our 2010 Form 10-K filed with the U.S. Securities and Exchange Commission. These risk factors include the volatility of natural gas prices; the limitations our level of indebtedness may have on our financial flexibility; declines in the values of our natural gas properties resulting in ceiling test write-downs; the availability of capital on an economic basis to fund reserve replacement; our ability to replace reserves and sustain production; uncertainties inherent in estimating quantities of natural gas and projecting future rates of production and the amount and timing of development expenditures; inability to generate profits or achieve targeted results in drilling and well operations; leasehold terms expiring before production can be established; hedging activities resulting in lower prices realized on natural gas, the need to secure hedging liabilities and the inability of hedging counterparties to satisfy their obligations; a reduced ability to borrow or raise additional capital as a result of lower natural gas prices; drilling and operating risks, including potential environmental liabilities; legislative and regulatory changes adversely affecting our industry and our business; general economic conditions negatively impacting us and our business counterparties; transportation capacity constraints and interruptions that could adversely affect our revenues and cash flow; and adverse results in pending or future litigation.

We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this presentation, and we undertake no obligation to update this information.

# Long Call on Natural Gas

- Accumulate out of favor long-life natural gas properties
  - Pursue accretive transactions in existing core areas or create new core areas
  - Consolidate ownership to drive down costs and control pace of development
  - Exploit development opportunities when natural gas price and operating cash flow allow
  
- Hedges mitigate short-term price risk
  
- Access capital markets opportunistically

# Value Creation Drivers

- Industry leading expertise in coalbed methane and shallow gas
- Significant existing proved reserves with additional unproved resource base
- Long-lived, shallow decline reserves provide long window for gas price appreciation
- Mix of long and shorter life, multi year, low risk development opportunities (price dependent)
- High potential opportunities
  - New frac technique in Gurnee Field
  - Z – Pinnate Horizontal drilling in Appalachia properties
- Limited competition results in attractive transactional opportunities

## CBM/Shallow Gas Experts

- Developer, acquirer and operator of coalbed methane properties since 1985
- Technical staff has developed 5 large scale CBM projects in four separate basins (Black Warrior, Raton, Central Appalachia and Cahaba Basins)
- Technical, professional and project management team averages more than 20 years of CBM experience
- Skilled in low pressure shallow gas operations
  - Operation of low pressure gathering systems
  - Pumping, collection, treatment and disposal of produced water
  - Efficient operation of compression to maintain low wellhead pressure
  - Focus on cost control
- Competitive advantage in acquiring shallow gas reserves

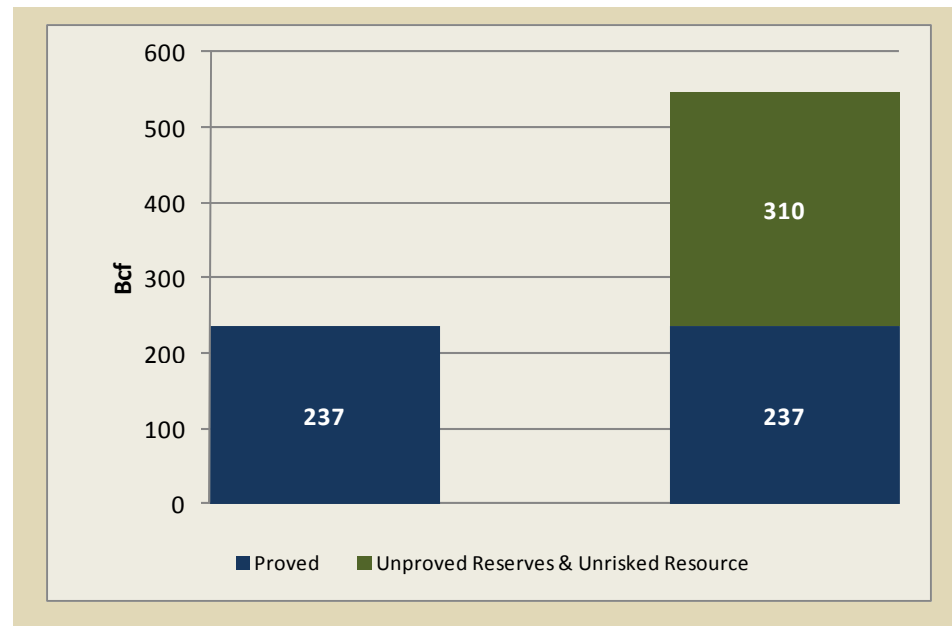
## Natural Gas Out of Favor

- Comparatively low forward price curve (current gas to oil ratio >35:1 versus historical average of ~ 8:1)
- Many producers need capital to pursue oil and liquids rich resource plays (monetizing dry gas reserves)
- Minimal competition in existing core areas of operation
- Buyers market
- Limited additional downside in natural gas prices

**TIME TO ACCUMULATE NATURAL GAS CHEAPLY**

# Significant Reserve / Resource Base <sup>(1)</sup>

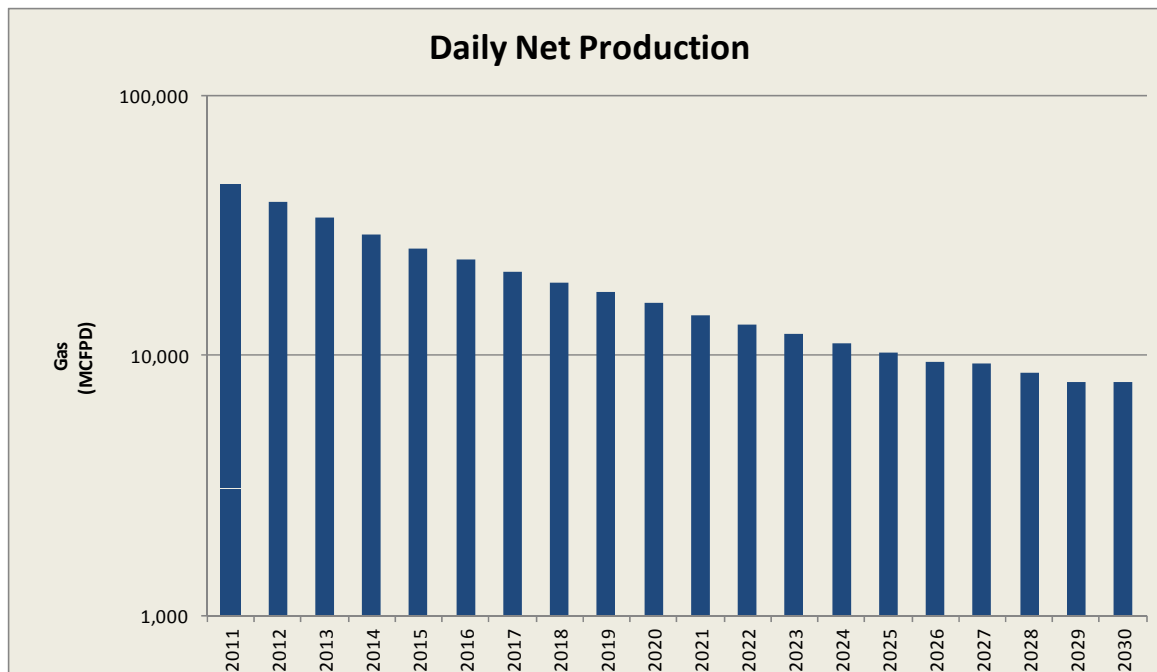
- Estimated SEC Proved reserves of ~ 237 Bcf at 9-30-11
  - 88% Operated
  - 76% Developed
- Additional unproved reserves and unrisks resource of ~ 310 Bcf
- Approximately 180,000 net undeveloped acres at 9/30/11; significant additional open acreage for follow-on success



<sup>(1)</sup> GeoMet & recent acquisition

## Long-lived Reserves, Shallow Decline Rates

- Current net gas sales volumes of ~44 MMcf/day
- R/P ratio of ~ 16 years
- Implied average annual decline rate of 12-13% initially, declining to a terminal decline rate of approximately 6% per annum



# Low Risk, Multiyear Development Opportunities

## POTENTIAL DRILLING LOCATIONS

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	<u># Net Locations</u>	<u>Undeveloped Reserves &amp; Unrisked Resource</u>
<b>Appalachia</b>		
Vertical	215	60
Horizontal	65	80
<b>Alabama</b>		
Vertical	156	225

# High Potential Opportunities

## Gurnee Field - Alabama

- New frac technique at Gurnee Field in Alabama provides in significant upside potential
- New frac technique has yielded encouraging results when applied to shallow, behind pipe zones and to new wellbores
- Involves fracing rock strata adjacent to coal seams using a shale like frac technique

## Z- Pinnate Horizontal Drilling - Appalachia

- Large drainage area (more reserves per well)
- High initial production rates (15 -20 times rate of vertical wells)
- Significantly higher IRR than traditional vertical wells

## Transactional Opportunities – Core Areas

- Leverage operating efficiencies
- Spread fixed costs
- Consolidate operations
- Achieve attractive returns in lower gas price environment

## Gurnee Growth Opportunity

- 2011 activity with new frac technique:
  - Five shallow behind pipe completions
  - Five new infill wells
  - Capital expended ~ \$4 million
  
- Results to date from new frac technique:
  - Estimated incremental daily production of ~ 1.0 MMcf (~ \$4,000 per Mcf of daily production)
  - More than 5 times the historic field-wide production rate per foot of coal completed
  - Long life, shallow decline (unlike shale plays)
  
- Approximately 750 Bcf of estimated gas in place
  
- Approximately 20,000 undeveloped acres under lease
  - Unproved reserves & unrisks resource potential assuming 80% recovery factor = 225 Bcf proved reserves

# Property Acquisition

- Acquired ~50 Bcf of CBM reserves (SEC pricing) in Alabama and West Virginia for an adjusted purchase price of \$68 million
- 78% proved producing
- Approximately 22 MMcf/day net gas sales rate
- Unique fit
  - 100% CBM
  - Located in existing core areas of operations
- Acquired royalty free license to use Z-Pinnate horizontal drilling technology
  - Approximately 100 identified potential drilling locations
  - High rate / high return opportunities
  - Potential to use technology in existing properties
- Potential to add to our position in both West Virginia and Alabama

# Property Acquisition Rationale

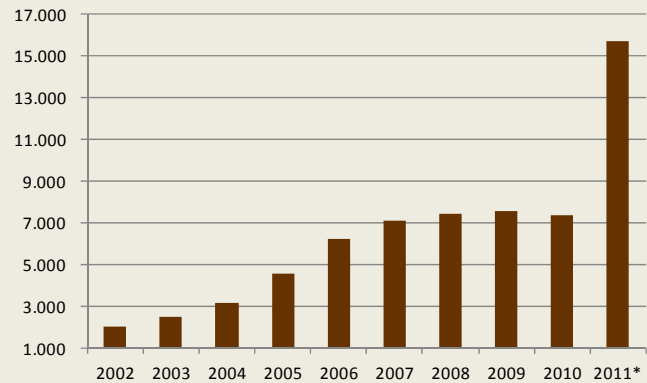
- Build mass
- Spread fixed operating and G&A costs over much larger production volumes
- Shorter production life complementary with existing long-life reserves
- Balance reserve, production and cash flow metrics for greater comparability in debt and equity marketplaces
- Lower total unit costs, reducing risk in lower gas price environment
- Provide cash flow for future development, acquisitions or debt reduction

# Property Acquisition

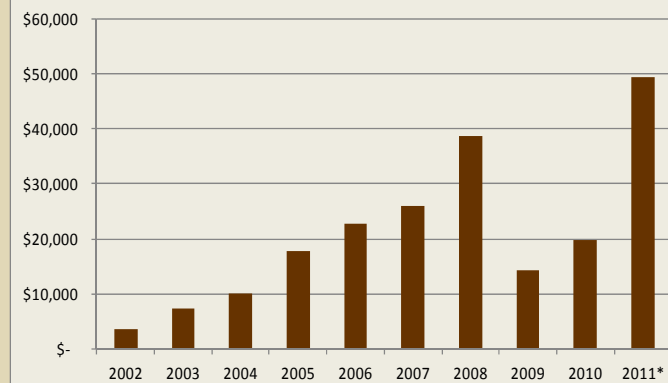
- Increased proved reserves ~ 25%
- More than doubled Adjusted EBITDA (a non-GAAP financial measure)
- Net natural gas sales doubled to approximately 44 MMcf / day
- Economies of scale achieved by spreading existing fixed operating and administrative costs over much larger gas sales volumes
- R/P ratio declined from estimated 28 years to approximately 16 years; metrics more easily benchmarked
- Provided significant free cash flow

# History of Growth

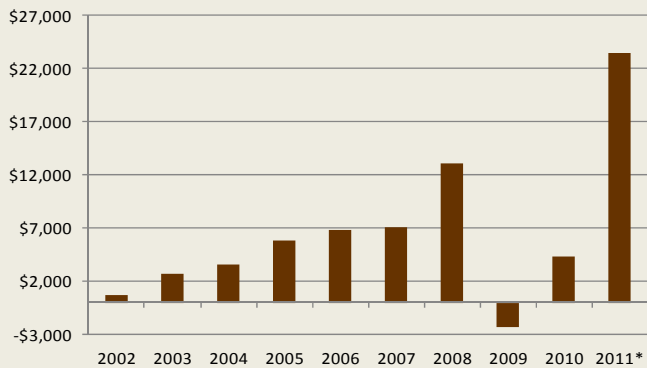
Annual Sales Volumes (Bcf)



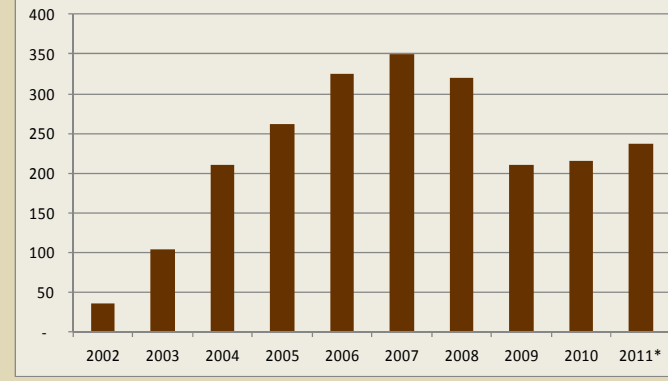
Adjusted EBITDA \*\* (in 000's)



Adjusted Net Income \*\* (in 000's)



Proved Reserves (Bcf)



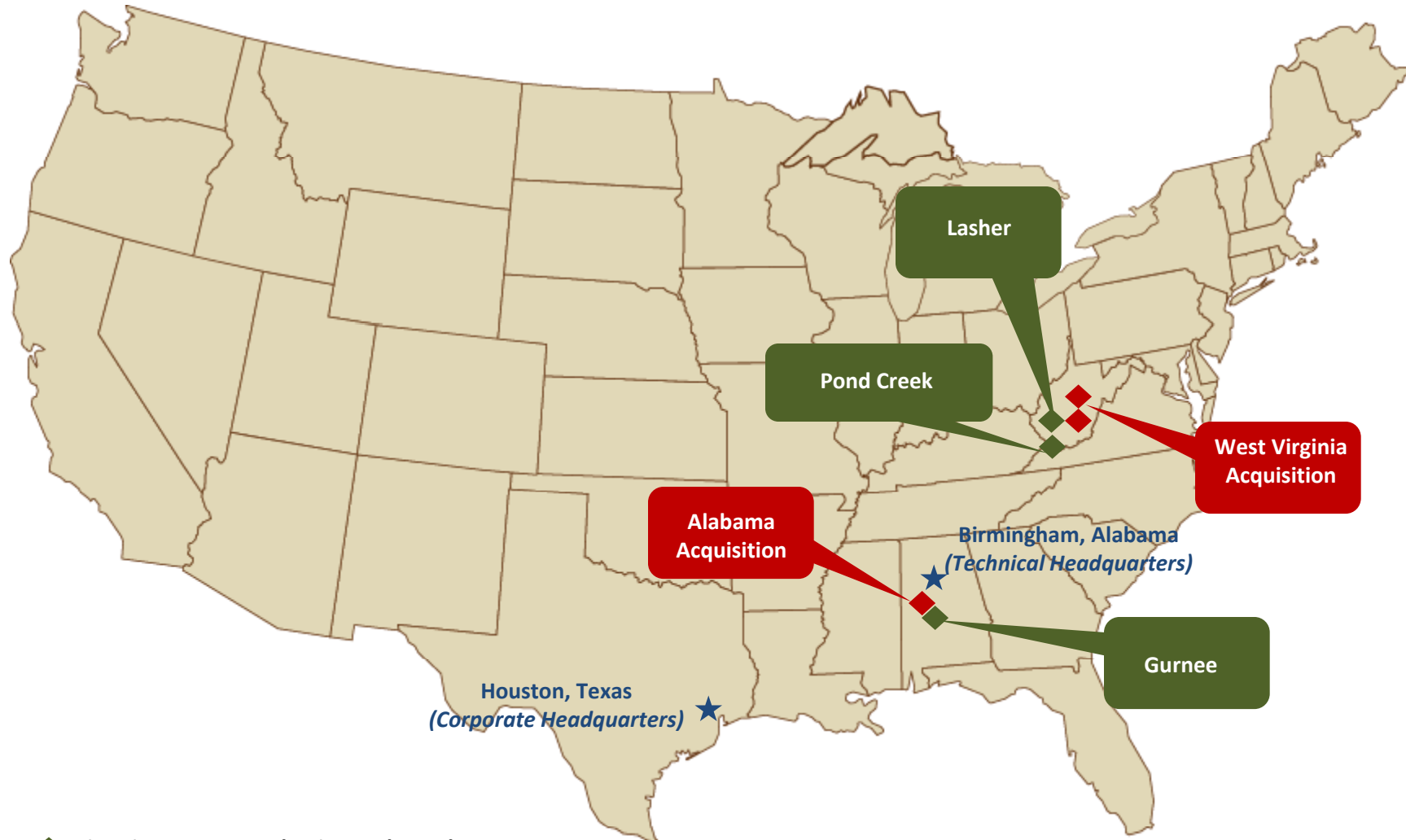
\* Combined GeoMet & acquisition for 12 month period ended 9-30-11

\*\* Non-GAAP financial measure. Refer to reconciliation elsewhere in this presentation

20 Bcf Proved Reserves at 12/31/2000

# Property Locations

## Areas of Operation



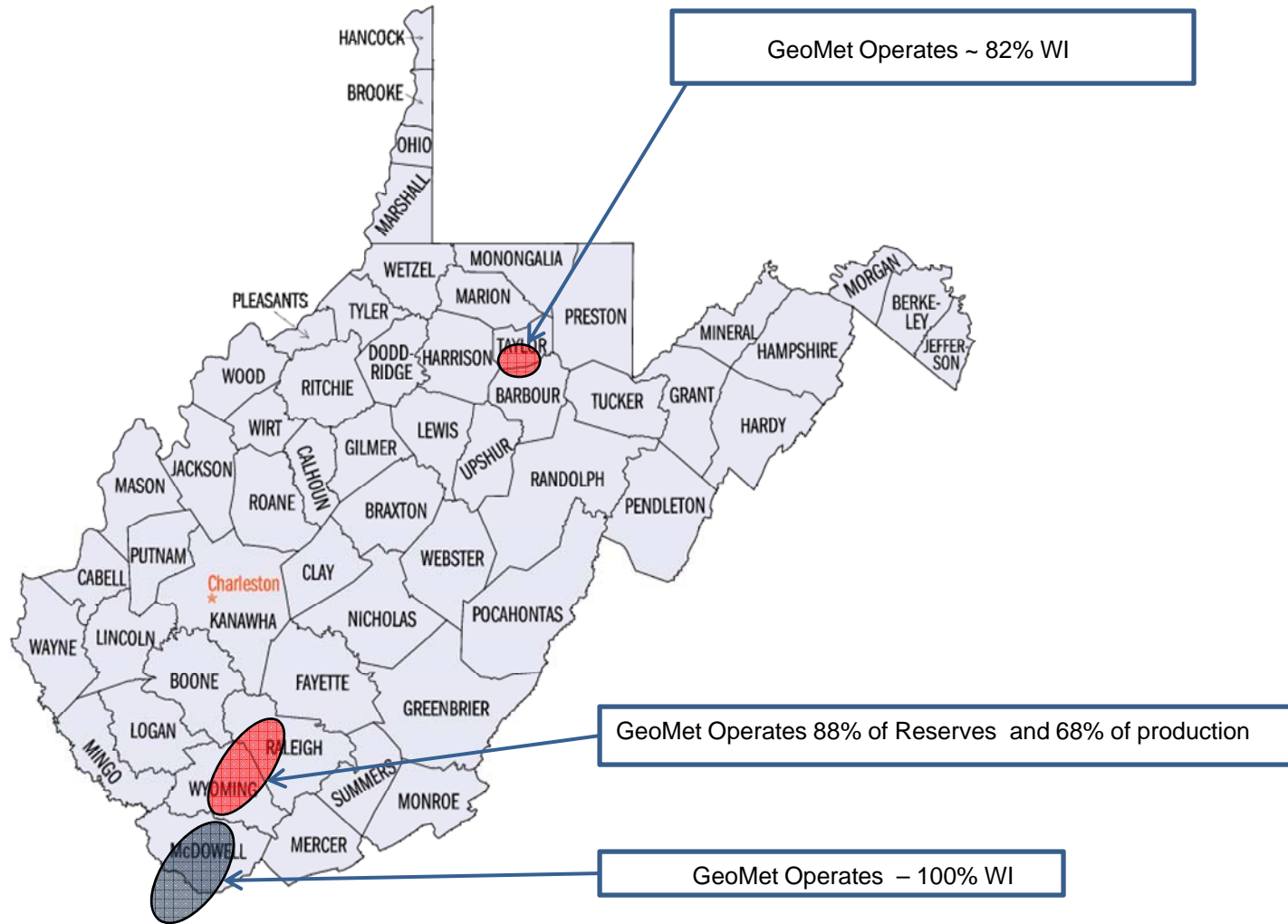
◆ Historic GeoMet Production and Development Area

◆ Acquired Properties Production and Development Area

# Appalachian Location Map

Existing GeoMet Production and Development Area

Acquisition Properties Production and Development Area



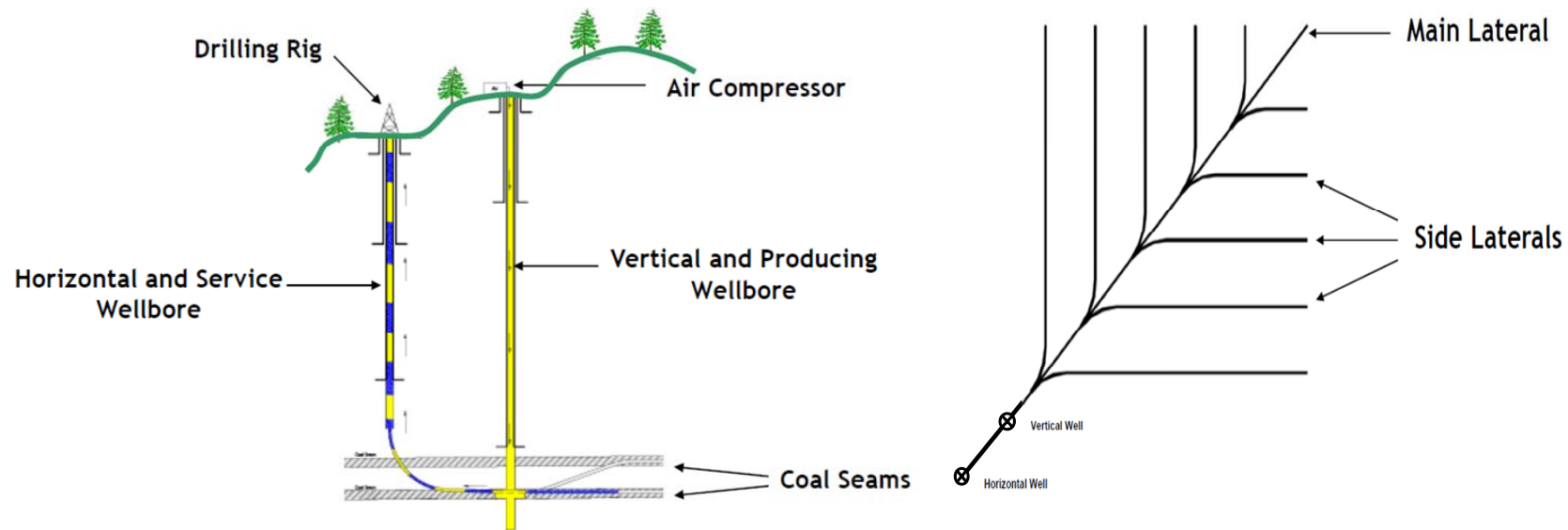
# Appalachian Properties

- Approximately 440 producing wells; 86% operated
- Approximately 91,000 net undeveloped acres
- Proved reserves estimated at 155 Bcf; 73% proved developed
- Approximately 280 potential net drilling locations
  - 65 Net Vertical
  - 215 Net horizontal
- Unproved reserves & unrisks resource potential of ~100 Bcf
- 32.2 MMcf / day current net gas sales

# Appalachian Properties

## Z - Pinnate Drilling Technology

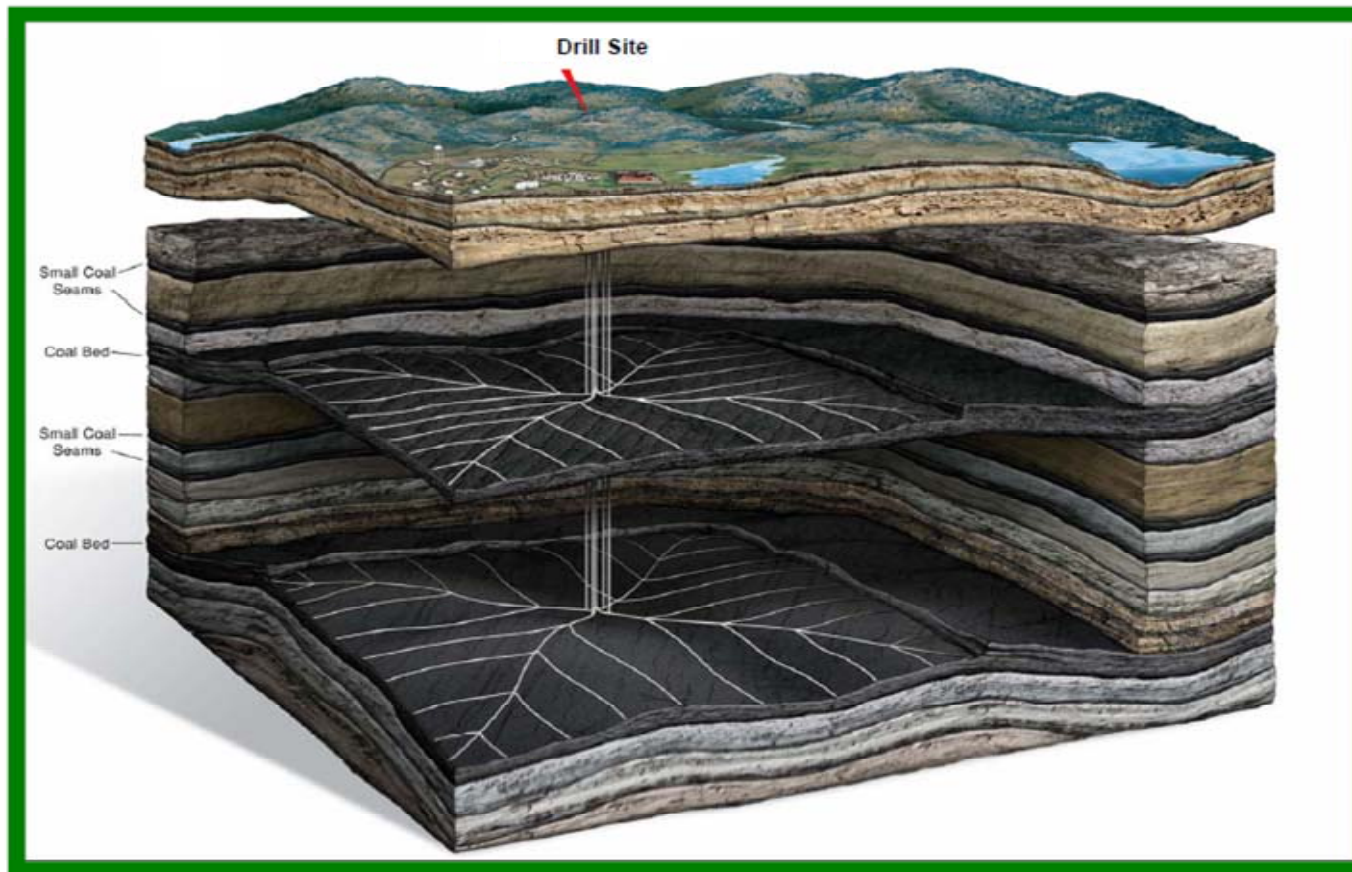
- System and Method for Surface-to-Inseam Drilling of Horizontal Multi-lateral Wells
- Two Wellbore Configuration (“Dual-Well System”)



# Appalachian Properties

## Z - Pinnate Drilling Technology

Well System with Pinnate Dual Seam Completion



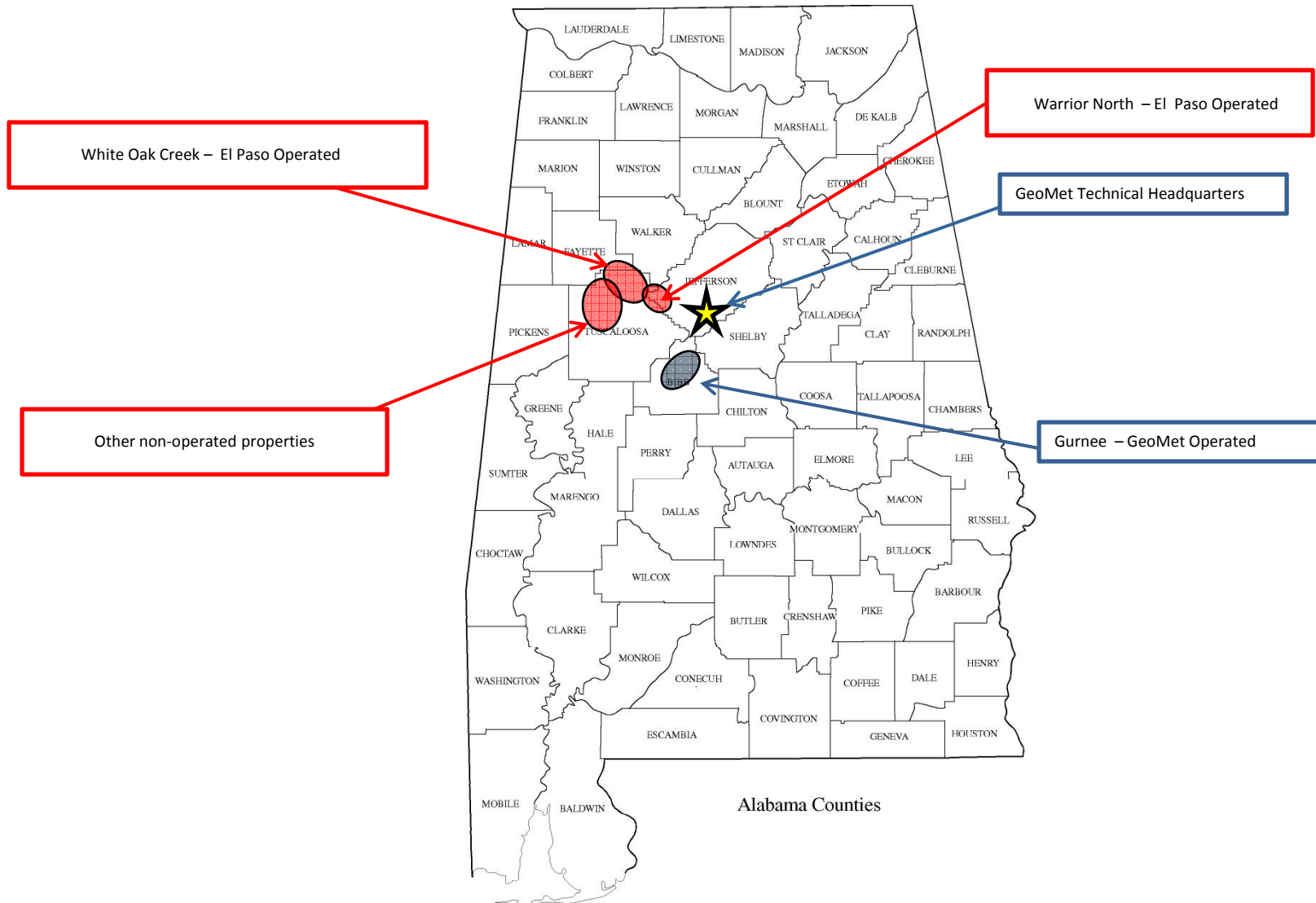
# Alabama Location Map



Existing GeoMet Production and Development Area



Acquisition Properties Production and Development Area



Alabama Counties

# Alabama Properties

- Approximately 1,255 producing wells; 18% operated
- Approximately 56,000 net undeveloped acres
- Proved reserves estimated at 82 Bcf; 82% proved developed
- Approximately 150 potential drilling locations
- Unproved reserves & unrisks resource potential of ~210 Bcf
- 12.1 MMcf / day current net gas sales

# Financial Information

# Financial Strategy

- Preserve liquidity (value creation rather than value destruction)
- Hedge forward prices
- Drive down costs
- Seek smaller acquisitions that enhance existing operations
- Seek larger transactions that provide growth and access to capital markets

# Acquisition Financing

- Acquisition financed with 100% bank debt (no new equity)
- New bank credit agreement (concurrent with property acquisition)
  - 4 year term
  - Current borrowing base of \$180 million
  - Current borrowings ~\$153 million
  - Improved covenants and reduced pricing

# Market Value Capital Structure & Debt Ratios

(\$ in 000's)

Net Bank Debt at 9/30/11 *	\$	158,276
Market value of equity, including preferred stock on an as converted basis **	\$	86,927
Total Market Capitalization	\$	245,203
Debt / Market Capitalization		65%
Trailing Combined 12 Month Adjusted EBITDA ***	\$	49,319
Debt / Adjusted EBITDA		3.21

\* Including acquisition financing of \$77.7 million.

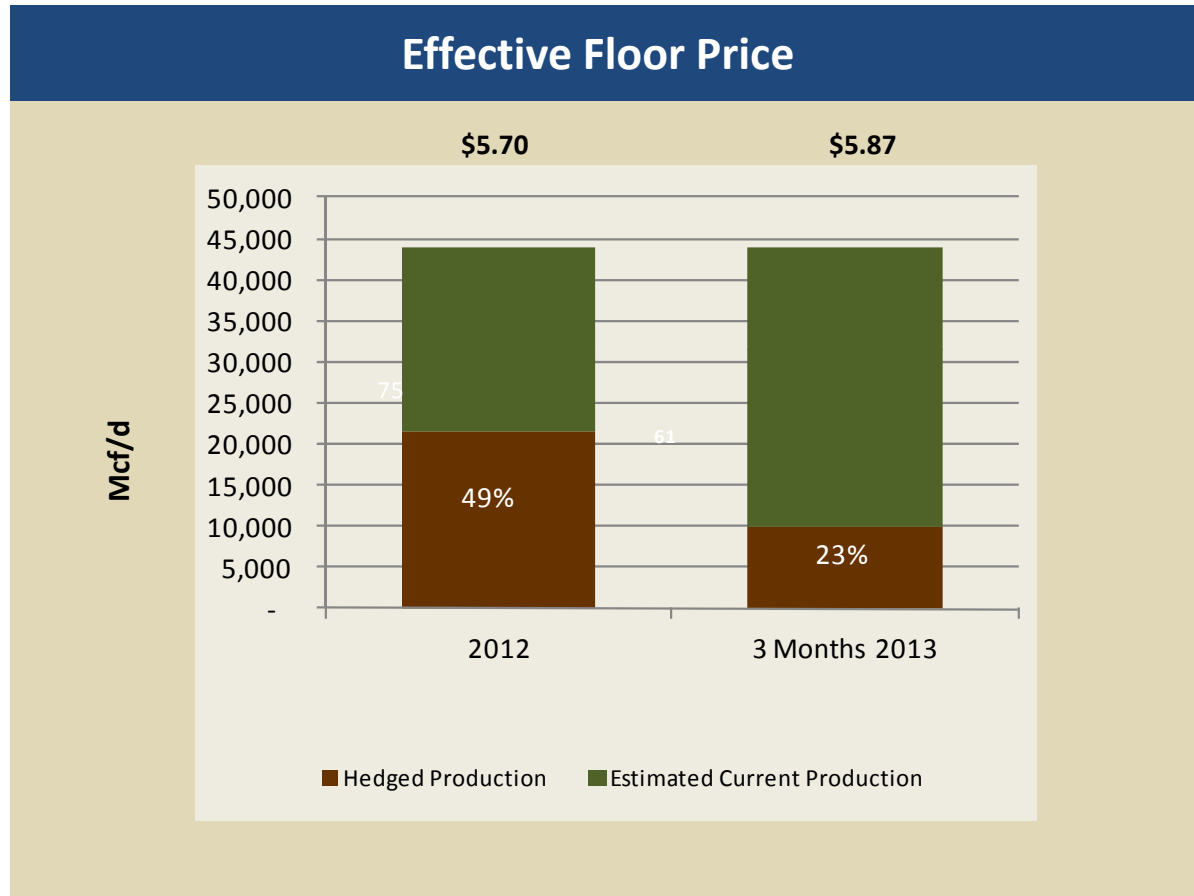
\*\* Based on market price of \$1.00 per share (50 day moving average as of January 17, 2012) and on a conversion ratio of 7.692308 common shares per each preferred share

\*\*\* Combined adjusted EBITDA of GeoMet and acquired properties. EBITDA is a non-GAAP financial measure. Refer to reconciliation elsewhere in this presentation.

## 2012 Capital Expenditures

- Most capital spending deferred until management has more visibility on future natural gas pricing
  - Drilling activity unlikely until price curve improves
  - Emphasize accumulation of reserves while costs to acquire are low
- Be prepared to drill highest return opportunities when prices recover
- Additional confirmation well in undeveloped portion of Gurnee Field possible
- Maximum expenditures +/- \$20 million

# Hedging Summary – As of December 31, 2011



# Operating Leverage

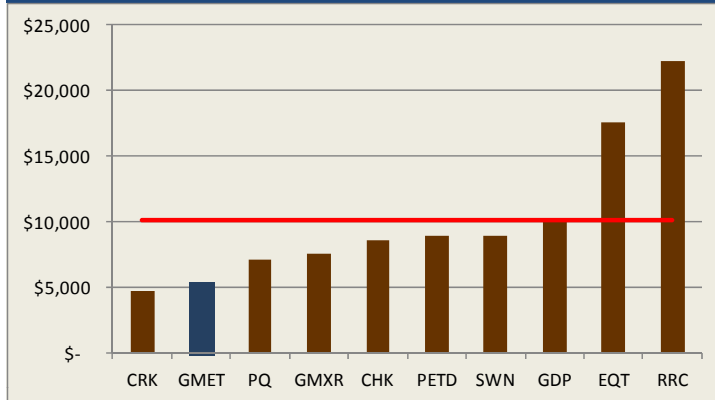
- Shallow production decline; 16 year R/P \*
- Historically have replaced reserves and production with less than 50% of cash flow (low asset intensity)
- Significant portion of costs are fixed or semi-fixed - for example transportation, compression, water disposal and operations and general overhead.
- Margins squeezed at current price levels

**HIGHLY leveraged to top line growth (production volumes and/or gas price)**

\* Includes acquisition completed in 4<sup>th</sup> quarter of 2011

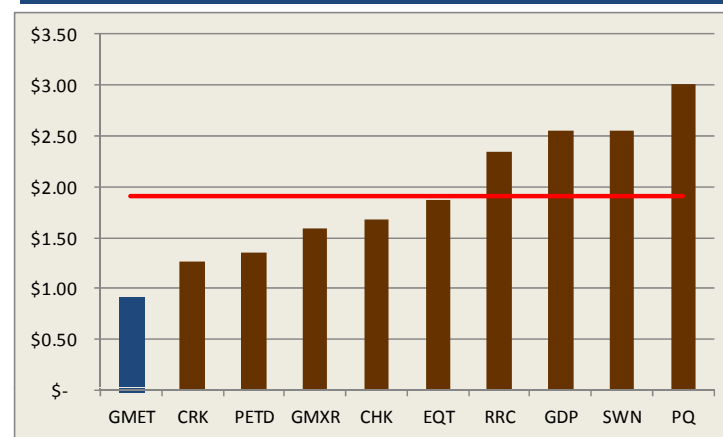
# Valuation Metrics

## Enterprise Value per Mcf Daily Production



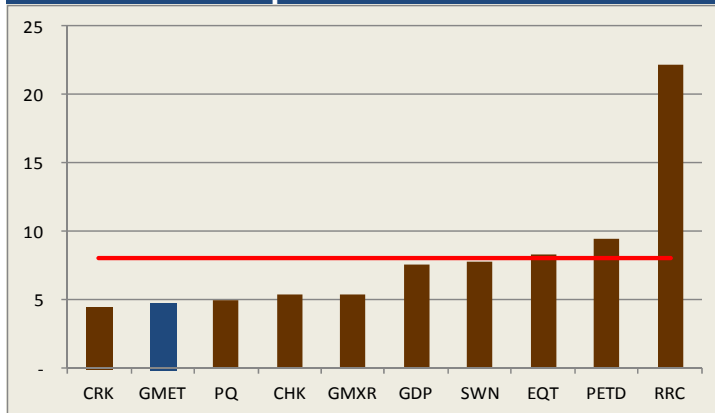
**GMET = 53% of average**

## Enterprise Value per Mcf Proved Reserves



**GMET = 48% of average**

## Ratio of Enterprise Value to LTM EBITDA



**GMET = 60% of average**

# Appendix

## Reconciliation of Adjusted EBITDA to Net Income

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
Net Income - GeoMet	\$ 603	\$ 2,541	\$ 3,836	\$ (1,573)	\$ 17,296	\$ 5,169	\$ (22,487)	\$ (167,134)	\$ 5,792	\$ 953
Excess of Operating Revenues Over Operating Expenses - Acquisition	-	-	-	-	-	-	-	-	-	14,292
Realized Hedging Gain - Acquisition	-	-	-	-	-	-	-	-	-	14,108
Interest Expense	186	232	986	2,895	3,130	5,091	4,739	5,146	5,124	3,503
Other Expense (income)	(113)	94	70	(33)	(23)	59	(36)	1	34	(14)
Income Tax Expense (benefit)	639	1,651	2,312	(993)	10,866	2,987	(712)	(98,142)	5,407	798
Asset Impairment	108	8	-	-	-	-	50,734	257,288	-	-
DDA	2,151	2,120	2,691	4,867	7,876	9,092	10,589	12,030	6,296	6,782
Minority Interest	<u>138</u>	<u>571</u>	<u>584</u>	<u>442</u>	<u>-</u>	<u>174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EBITDA	3,713	7,218	10,479	5,604	39,145	22,572	42,827	9,189	22,652	40,422
Unrealized Hedging Loss (Gain)	-	155	(414)	12,059	(16,877)	3,007	(4,993)	3,995	(5,950)	3,924
Unrealized Loss (Gain) from Change in FV of Derivative	-	-	-	-	-	-	-	-	2,164	3,760
Stock Based Compensation	-	-	-	-	317	311	566	793	411	684
Accretion Expense	-	-	-	98	157	210	365	432	484	529
Adjusted EBITDA	<u>\$ 3,713</u>	<u>\$ 7,373</u>	<u>\$ 10,065</u>	<u>\$ 17,762</u>	<u>\$ 22,742</u>	<u>\$ 26,100</u>	<u>\$ 38,765</u>	<u>\$ 14,409</u>	<u>\$ 19,762</u>	<u>\$ 49,319</u>

\* Combined GeoMet and acquisition for 12 month period ended 9/30/11

## Reconciliation of Adjusted Net Income to Net Income

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011*</u>
Net Income - GeoMet	\$ 603	\$ 2,541	\$ 3,836	\$ (1,573)	\$ 17,296	\$ 5,169	\$ (22,487)	\$ (167,134)	\$ 5,792	\$ 953
Excess of Operating Revenues Over Operating Expenses - Acquisition	-	-	-	-	-	-	-	-	-	14,292
Realized Hedging Gain - Acquisition	-	-	-	-	-	-	-	-	-	14,108
Income Taxes - Acquisition	-	-	-	-	-	-	-	-	-	(10,849)
Asset Impairment	108	8	-	-	-	-	50,734	257,288	-	-
Unrealized Hedging Losses (gains)	-	155	(414)	12,059	(16,877)	3,007	(4,993)	3,995	(5,950)	3,924
Unrealized Loss (Gain) from Change in FV of Derivative	-	-	-	-	-	-	-	-	2,164	3,760
Accelerated Depreciation - Canada	-	-	-	-	-	-	-	2,742	-	-
Terminated Transaction Costs	-	-	-	-	-	-	-	-	1,403	-
Acquisition Costs	-	-	-	-	-	-	-	-	-	371
Effect of Taxes	(41)	(62)	158	(4,607)	6,447	(1,149)	(10,181)	(99,154)	910	(3,078)
Adjusted Net Income	<u>\$ 670</u>	<u>\$ 2,643</u>	<u>\$ 3,580</u>	<u>\$ 5,879</u>	<u>\$ 6,866</u>	<u>\$ 7,027</u>	<u>\$ 13,073</u>	<u>\$ (2,263)</u>	<u>\$ 4,319</u>	<u>\$ 23,481</u>

\* Combined GeoMet and acquisition for 12 month period ended 9/30/11