

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

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:				
Gas sales	\$ 13,358	\$ 13,104	\$ 68,314	\$ 49,694
Operating fees and other	<u>133</u>	<u>333</u>	<u>780</u>	<u>1,290</u>
Total revenues	13,491	13,437	69,094	50,984
Expenses:				
Total production expenses	5,692	5,109	21,392	20,354
Depreciation, depletion and amortization	3,117	2,404	10,589	9,092
Impairment of gas properties	50,734	-	50,734	-
General and administrative	1,891	2,253	9,368	9,294
Realized (gains) losses on derivative contracts	(1,521)	(1,371)	500	(3,895)
Unrealized (gains) losses on derivative contracts	<u>(4,173)</u>	<u>758</u>	<u>(4,993)</u>	<u>3,007</u>
Total operating expenses	55,740	9,153	87,590	37,852
Operating (loss) income from continuing operations	(42,249)	4,284	(18,496)	13,132
Other expenses & interest, net	<u>(1,247)</u>	<u>(1,547)</u>	<u>(4,703)</u>	<u>(5,149)</u>
(Loss) income before income taxes and discontinued operations	(43,496)	2,737	(23,199)	7,983
Income tax (benefit) expense	<u>(8,847)</u>	<u>1,137</u>	<u>(712)</u>	<u>2,987</u>
(Loss) income from continuing operations	(34,649)	1,600	(22,487)	4,996
Discontinued operations, net of tax	<u>0</u>	<u>8</u>	<u>0</u>	<u>173</u>
Net (loss) income	<u>\$ (34,649)</u>	<u>\$ 1,608</u>	<u>\$ (22,487)</u>	<u>\$ 5,169</u>
(Loss) earnings per share:				
Income from continuing operations				
Basic	<u>\$ (0.89)</u>	<u>\$ 0.04</u>	<u>\$ (0.58)</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (0.89)</u>	<u>\$ 0.04</u>	<u>\$ (0.58)</u>	<u>\$ 0.13</u>
Discontinued operations				
Basic	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Diluted	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Net (loss) income				
Basic	<u>\$ (0.89)</u>	<u>\$ 0.04</u>	<u>\$ (0.58)</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (0.89)</u>	<u>\$ 0.04</u>	<u>\$ (0.58)</u>	<u>\$ 0.13</u>
Weighted average number of common shares:				
Basic	<u>38,885</u>	<u>38,996</u>	<u>38,857</u>	<u>38,823</u>
Diluted	<u>38,885</u>	<u>39,627</u>	<u>38,857</u>	<u>39,700</u>

GEOMET, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31, 2008	December 31, 2007
Assets:		
Current assets	\$ 17,938	\$ 11,509
Properties and equipment, net of accumulated depreciation, depletion, amortization	358,299	366,229
Other assets	1,363	939
Total assets	\$ 377,600	\$ 378,677
Liabilities and stockholders' equity:		
Current liabilities	\$ 19,379	\$ 13,571
Long-term debt	117,118	96,730
Other long-term liabilities	48,671	49,700
Total liabilities	185,168	160,001
Total stockholders' equity	192,432	218,676
Total liabilities and stockholders' equity	\$ 377,600	\$ 378,677

GEOMET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Twelve Months Ended December 31,	
	2008	2007
Net cash provided by operating activities	\$ 32,958	\$ 17,487
Net cash used in investing activities	(52,719)	(53,832)
Net cash provided by financing activities	20,493	36,191
Effect of exchange rates changes on cash	(176)	281
Increase in cash and cash equivalents	556	127
Cash and cash equivalents at beginning of period	1,541	1,414
Cash and cash equivalents at end of period	\$ 2,097	\$ 1,541

GEOMET, INC.
OPERATING STATISTICS

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Net sales volumes (MMcf)	1,906	1,855	7,453	7,126
Per Mcf data (\$/Mcf):				
Average natural gas sales price.....	\$ 7.01	\$ 7.07	\$ 9.17	\$ 6.97
Differential to NYMEX (1)	\$ 0.07	\$ 0.10	\$ 0.16	\$ 0.09
Average natural gas sales price realized (2).....	\$ 7.81	\$ 7.80	\$ 9.10	\$ 7.52
Adjusted lease operating expense (3)	\$ 1.98	\$ 1.78	\$ 1.88	\$ 1.78
Compression expenses	\$ 0.42	\$ 0.36	\$ 0.41	\$ 0.37
Transportation expense	\$ 0.27	\$ 0.27	\$ 0.19	\$ 0.36
Production taxes.....	\$ 0.25	\$ 0.17	\$ 0.29	\$ 0.17
Total production expenses, as adjusted (3)	\$ 2.92	\$ 2.58	\$ 2.77	\$ 2.68
Depreciation, depletion and amortization	\$ 1.64	\$ 1.30	\$ 1.42	\$ 1.28

POND CREEK FIELD

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Net sales volumes (MMcf)	1,300	1,168	5,003	4,494
Per Mcf data (\$/Mcf):				
Lease operating expense	\$ 1.56	\$ 1.44	\$ 1.54	\$ 1.60
Compression expense	\$ 0.43	\$ 0.30	\$ 0.39	\$ 0.36
Transportation expense	\$ 0.40	\$ 0.40	\$ 0.29	\$ 0.56
Production taxes.....	\$ 0.18	\$ 0.02	\$ 0.15	\$ 0.01
Total production expenses	\$ 2.57	\$ 2.16	\$ 2.37	\$ 2.53

GURNEE FIELD

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Net sales volumes (MMcf)	574	586	2,241	2,235
Per Mcf data (\$/Mcf):				
Adjusted lease operating expense (3)	\$ 2.46	\$ 2.76	\$ 2.63	\$ 2.47
Compression expense	\$ 0.36	\$ 0.54	\$ 0.48	\$ 0.47
Production taxes.....	\$ 0.42	\$ 0.41	\$ 0.56	\$ 0.41
Total production expenses	\$ 3.24	\$ 3.71	\$ 3.67	\$ 3.35

- (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 are not reflected in the net gas sales volumes. See Reconciliation of Adjusted Lease Operating Expense.

GEOMET, INC.
CONSOLIDATED DERIVATIVE CONTRACT POSITIONS

At December 31, 2008, the Company had the following natural gas collar positions:

Period	Volume (MMBtu)	Sold Ceiling	Bought Floor	Sold Floor
January 2009 through March 2009	540,000	\$ 11.00	\$ 8.50	\$ 6.25
January 2009 through March 2009	540,000	\$ 11.00	\$ 8.84	\$ 6.00
April through October 2009.....	1,284,000	\$ 10.00	\$ 7.50	\$ 5.25
April through October 2009.....	1,284,000	\$ 10.00	\$ 8.50	\$ 6.50
November 2009 through March 2010.....	906,000	\$ 11.20	\$ 9.50	\$ 7.00

At December 31, 2008, the Company had the following interest rate swap positions:

Description	Effective date	Designated maturity date	Fixed rate (1)	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

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

Subsequent to December 31, 2008, the Company entered into the following natural gas collar positions:

Period	Volume (MMBtu)	Sold Ceiling	Bought Floor	Sold Floor
November 2009 through March 2010.....	604,000	\$ 6.65	\$ 5.50	\$ 3.50
April through October 2010.....	856,000	\$ 6.80	\$ 5.50	\$ 3.50

Subsequent to December 31, 2008, the Company entered into the following interest rate swap positions:

Description	Effective date	Designated maturity date	Fixed rate (2)	Notional amount
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) INCOME

(In thousands)

	Three Months Ended		Twelve Months Ended	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Net (loss) income	\$ (34,649)	\$ 1,608	\$ (22,487)	\$ 5,169
Add: Interest expense, net of interest income and amounts capitalized	1,237	1,539	4,739	5,091
Add: Other expense (income)	10	8	(36)	59
(Deduct) Add: Income tax (benefit) expense	(8,847)	1,137	(712)	2,987
Add: Depreciation, depletion and amortization	3,117	2,404	10,589	9,092
Add: Impairment of gas properties	50,734	0	50,734	0
Add: Minority interest	0	8	0	174
(Deduct) Add: Unrealized (gains) losses on derivative contracts	(4,173)	758	(4,993)	3,007
Add: Stock based compensation	81	54	566	311
Add: Accretion expense	<u>107</u>	<u>53</u>	<u>365</u>	<u>210</u>
Adjusted EBITDA	<u>\$ 7,617</u>	<u>\$ 7,569</u>	<u>\$ 38,765</u>	<u>\$ 26,100</u>

The table above reconciles net (loss) income Adjusted EBITDA. Adjusted EBITDA is defined as net (loss) income before net interest expense, other non-operating income or losses, income taxes, depreciation, depletion and amortization, and minority interest 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 TO NET (LOSS) INCOME
(In thousands)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net (loss) income	\$ (34,649)	\$ 1,608	\$ (22,487)	\$ 5,169
Impairment of gas properties	50,734	-	50,734	-
Unrealized (gains) losses on derivative contracts, net of tax	(4,173)	758	(4,993)	3,007
Effect of income taxes	(10,494)	(289)	(10,181)	(1,149)
Adjusted Net Income	<u>\$ 1,418</u>	<u>\$ 2,077</u>	<u>\$ 13,073</u>	<u>\$ 7,027</u>

The table above reconciles net (loss) income to Adjusted Net Income. Adjusted Net Income is calculated by eliminating unrealized (gains) losses on derivative contracts from net (loss) income, non-cash impairments to our gas properties, and their related tax effects to arrive at Adjusted Net Income. 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, 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 relates 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) income and are not eliminated in determining Adjusted Net Income. 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 December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
Lease operating expense	\$ 3,890	\$ 3,628	\$ 14,757	\$ 13,981
Deduct: Produced water disposal fees	133	333	780	1,290
Adjusted lease operating expense	<u>\$ 3,757</u>	<u>\$ 3,295</u>	<u>\$ 13,977</u>	<u>\$ 12,691</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 with the natural gas sales revenues it is associated with.