



FORM 10-K405

GEORESOURCES INC - GEOI

Exhibit:

Filed: March 28, 1997 (period: December 31, 1996)

Annual report. The Regulation S-K Item 405 box on the cover page is checked

PART I.

ITEM 1. BUSINESS

Item 2.)

ITEM 3. LEGAL PROCEEDINGS

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

ITEM 6. SELECTED FINANCIAL DATA

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. PRINCIPAL SHAREHOLDERS AND MANAGEMENT SHAREHOLDERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Signatures

EXHIBIT INDEX

EX-10 (Material contracts)

EX-27

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

- X Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1996.
Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number - 0-8041

GeoResources, Inc.
(Exact name of Registrant as specified in its charter)
Colorado 84-0505444
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)
1407 West Dakota Parkway, Suite 1-B 58801
Williston, North Dakota (Zip Code)
(Address of Principal executive offices)

(Registrant's telephone number including area code) (701) 572-2020

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the Common Stock (the only class of voting stock held by nonaffiliates of the Registrant as of March 24, 1997, was approximately \$8,402,428 (based on the closing price of the Registrant's common stock on the NASDAQ system on such date.)

Shares of \$0.01 par value Common Stock outstanding at March 18, 1997: 4,060,714

Documents incorporated by reference - none

PART I.

ITEM 1. BUSINESS

General Development of Business

GeoResources, Inc. (the "Registrant" or the "Company") is a natural resources company engaged principally in the following two business segments: 1) oil and gas exploration, development and production; and 2) mining of leonardite (oxidized lignite coal) and manufacturing of leonardite based products which are sold primarily as oil and gas drilling mud additives. The Registrant was incorporated under Colorado law in 1958 and was originally engaged in uranium mining. The Registrant built its first leonardite processing plant in 1964 in Williston, North Dakota, and began participating in oil and gas exploration and production in 1969. In 1982, the Registrant completed construction of a larger leonardite processing plant in Williston that is in use today. Financial information about the Registrant's two industry segments is presented in Note B to the Financial Statements in Item 8 of this report.

Information contained in this Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate" or "continue," or variations thereon or comparable terminology. In addition, all statements other than statements of historical facts that address activities, events or developments that the Company expects, believes or anticipates, will or may occur in the future, and

other such matters, are forward-looking statements.

The future results of the Company may vary materially from those anticipated by management, and may be affected by various trends and factors which are beyond the control of the Company. These risks include the competitive environment in which the Company operates, changing oil and gas prices, the demand for oil, gas and leonardite, availability of drilling rigs, dependence upon key management personnel and other risks described herein.

Oil and Gas Exploration, Development and Production

The Registrant's oil and gas exploration and production efforts are concentrated on oil properties in the North Dakota and Montana portions of the Williston Basin. The Registrant typically generates prospects for its own exploitation, but when a prospect is deemed to have substantial risk or cost, the Registrant may attempt to raise all or a portion of the funds necessary for exploration or development through farmouts, joint ventures, or other similar types of cost-sharing arrangements. The amount of interest retained by the Registrant in a cost-sharing arrangement varies widely and depends upon many factors, including the exploratory costs and the risks involved.

In addition to originating its own prospects, the Registrant occasionally participates in exploratory and development prospects originated by other individuals and companies. The Registrant also evaluates interests in various proved properties to acquire for further operation and/or development.

The Registrant, where possible, supervises drilling and production activities on new prospects and properties acquired. It does not own or have any plans to acquire any rotary drilling equipment. Hence, the Registrant uses independent drilling contractors for the drilling of wells of which it is the operator. Thus, the Registrant's drilling activities can be subject to delays caused by shortages of drilling equipment or other factors beyond its control, including inclement weather.

As of December 31, 1996, the Registrant had developed oil and gas leases covering approximately 12,114 net acres in Montana and North Dakota, and during 1996 sold an average 463 net equivalent barrels of oil per day from 90 gross (62.87 net) producing wells located primarily in North Dakota.

The Registrant sells its crude oil to purchasers with facilities located near the Registrant's wells. The Registrant's gas reserves are also contracted to purchasers in the area near the Registrant's wells.

Mining and Manufacturing Leonardite Products

The Registrant operates a leonardite mine and processing plant in Williston, North Dakota. Leonardite is mined from leased reserves and processed to make a basic product that can be sold as is, or blended with other substances to make several different dry, free flowing powders primarily for the oil well drilling mud industry. Leonardite products act as a dispersant or thinner, and provide filtration control when used as an additive in drilling muds. Leonardite is also sold by the Registrant for use in metal working foundries and in agricultural applications.

In 1996, the Company's leonardite products were sold primarily to drilling mud companies located in coastal areas of the Gulf of Mexico. Demand for the plant's output is governed mainly by the level of oil and gas drilling activities, particularly in the gulf coast area, both onshore and offshore. Drilling activity declined substantially in the mid 1980's and has remained at relatively low levels for the past several years. The Registrant has no significant supply contracts with individual customers.

Status of Products, Services or Industry Segments in Development

The Company owns 80% of the stock of Belmont Natural Resource Company, Inc. (BNRC), a Washington corporation formed for the purpose of exploiting natural gas opportunities in the Pacific Northwest. BNRC owns oil and gas leases covering 6,713 gross acres (6,479 net) on a gas prospect located in the State of Washington. Activities in 1996 consisted of a small amount of geological field work in an effort to further define the prospect. The Company does not expect to devote any substantial resources to this project in 1997.

In addition to its two principal business segments, the Registrant owns a nonproducing silver property in Arizona. (See Item 2.) The Company also owns a minor amount of geothermal and other mineral rights located in Oregon. The Registrant does not expect to devote any substantial resources to hard mineral or geothermal exploration or development in 1997.

Sources and Availability of Raw Materials and Leases

Maintaining sufficient leasehold mineral interests for oil and gas exploration and development is a primary continuing need in the oil and gas business. Management believes that the Company's current undeveloped acreage is sufficient to meet its presently foreseeable oil and gas leasehold needs.

Maintaining sufficient leasehold mineral interests for leonardite mining is also a continuing need for the Registrant's mining and manufacturing of leonardite products. Management believes the leonardite held under current leases is sufficient to maintain the present output for many years. (See

Item 2.)

Major Customers

In 1996, Registrant sold its crude oil to 19 purchasers. Koch Oil Company, Citation Oil & Gas Corp., and Rigel, Inc. were the major customers, accounting for approximately 83%, 5%, and 2%, respectively, of the Registrant's oil and gas revenue in 1996, which was approximately 65%, 4%, and 1%, respectively, of the Registrant's total operating revenue. Management believes there are other crude oil purchasers to whom the Company would be able to sell its oil if it lost any of its current customers.

In 1996, the Registrant sold leonardite products to 43 customers. The largest customer in 1996 for leonardite products made purchases that totaled 9% of the Registrant's mining and manufacturing revenue, which was approximately 2% of the Registrant's total operating revenue.

Backlog Orders, Research and Development

The Registrant does not have any material long-term or short-term contracts to supply leonardite products. All orders are reasonably expected to be filled within three weeks of receipt. From time to time, the Registrant enters into short-term contracts to deliver quantities of oil or gas; however, no significant backlog exists. The Company's oil and gas division order contracts and off lease marketing arrangements are typical of those in the industry with 30 to 90 day cancellation notice provisions and generally do not require long-term delivery of fixed quantities of oil or gas. The Registrant has not spent any material time or funds on research and development, and does not expect to do so in the foreseeable future.

Competition

Oil and Gas

In addition to being highly speculative, the oil and gas business is intensely competitive among the many independent operators and major oil companies in the industry. Many competitors possess financial resources and technical facilities greater than those available to the Registrant and may, therefore, be able to pay more for desirable properties or to find more potentially productive prospects. However, management believes the Registrant has the ability to obtain leasehold interests which will be sufficient to meet its oil and gas needs in the foreseeable future.

Leonardite Products

Uses and specifications of leonardite-based drilling mud additives are subject to change if better products are found. The Registrant's products compete with leonardite and non-leonardite products used as additives in numerous types of drilling mud. In addition, leonardite deposits are available in other areas within the United States and competitors may be able to enter the leonardite business with relative ease. At the present time, similar products are marketed by other companies who mine, process and market leonardite products. Competition lies primarily in delivery time, transportation costs, quality of the product, performance of the product when used in drilling mud and access to high-quality leonardite.

Environmental Regulations

All of the Registrant's operations are generally subject to federal, state or local environmental regulations. The Registrant's oil and gas business segment is affected particularly by those environmental regulations concerned with the disposal of produced oilfield brines and other oil-related wastes. The Registrant's leonardite mining and processing segment is also subject to numerous state and federal environmental regulations, particularly those concerned with air contaminant emission levels of the Company's processing plant, and mine permit and reclamation regulations pertaining to surface mining at the Company's leonardite mine. The Company believes that maintenance of acceptable air contaminant emission levels at its processing plant could become more costly in the future if plant production increases substantially above 1996 levels. Management believes significantly higher plant utilization would increase emission levels and could make it necessary to replace or upgrade air quality control equipment. Future environmental compliance costs that might be required to upgrade the equipment are not known at this time.

Foreign Operations and Export Sales

The Registrant has no production facilities or operations in foreign countries and has no direct export sales. Some of the Company's leonardite products are sold to distributors in the United States who in turn export these products.

Employees

As of March 15, 1997, the Registrant had 13 full-time employees.

ITEM 2. PROPERTIES

The Registrant's properties consist of four main categories: office, leonardite plant and mine, oil and gas, and a nonproducing silver property. Certain of these properties are mortgaged to the Company's bank. See Note E to the Financial Statements for further information.

Office

The Registrant owns a 17,500 square foot office building which is located on a one acre lot in Williston, North Dakota. The Company utilizes approximately 5,000 square feet of the building and rents the remainder to unaffiliated businesses.

Leonardite Plant and Mine

The site of the Registrant's leonardite plant covers approximately nine acres located one mile east of Williston in Williams County, North Dakota. This site and an additional 20 acres of undeveloped property are owned by the Company. The plant has approximately 11,500 square feet of floor area consisting of warehousing and processing space. Therein is equipment able to process and ship approximately 3,000 tons of leonardite products per month. Finished product leonardite sales for the past three years are shown below.

Year	Finished Products (Tons)	Average Sales Price Per Ton
1996	8,909	\$ 94.49
1995	7,528	\$ 93.51
1994	8,141	\$ 93.05

The Registrant's leonardite mining properties consist of a developed lease from private parties and one undeveloped lease from the United States Department of the Interior, Bureau of Land Management. The leased land is located about one mile from the plant site in Williams County, North Dakota. The private-party (fee) lease totals approximately 160 acres. The federal lease from the Bureau of Land Management (BLM) covers 160 undeveloped acres. In 1994, the Company formed a 240 acre logical mining unit (LMU), in accordance with BLM regulations, consisting of 80 acres of the fee lease and 160 acres of the BLM lease. This LMU allows current operations on the fee lease to satisfy diligent development and other requirements for 160 acres of the BLM lease. Management believes the leonardite contained in the 240 acre LMU is sufficient to supply its plant's raw material requirements for many years and that before these reserves were exhausted, the Company would be able to acquire other fee or federal coal leases in the same area.

Oil and Gas Properties

The Registrant owns developed oil and gas leases totaling 16,520 gross acres (12,114 net acres) as of March 15, 1997, plus associated production equipment and also owns a number of undeveloped oil and gas leases. The acreage and other additional information concerning the Registrant's oil and gas operations are presented in the following tables.

Estimated Net Quantities of Oil and Gas and Standardized Measure of Future Net Cash Flows

All the Registrant's oil and gas reserves are located in the United States. Information concerning the estimated net quantities of all the Registrant's proved reserves and the standardized measure of future net cash flows from such reserves is presented as unaudited supplementary information following the Financial Statements in Item 8. The estimates are based upon the report of Broschat Engineering and Management Services, an independent petroleum engineering firm in Williston, North Dakota. The Registrant has no long-term supply or similar agreements with foreign governments or authorities, and the Registrant does not own an interest in any reserves accounted for by the equity method.

Net Oil and Gas Production, Average Price and Average Production Cost

The net quantities of oil and gas produced and sold for each of the last three fiscal years, the average sales price per unit sold and the average

production cost per unit are presented below.

Oil & Gas

Year	Net Oil Prod. (Bbls)	Net Gas Prod. (MCF)	Net Oil & Gas Prod. (Equiv. Bbls)*	Average Oil Sales Price Per Bbl	Average Gas Sales Price Per MCF	Average Prod. Cost Per Bbl**
1996	166,810	13,167	169,005	\$17.67	\$ 1.29	\$ 6.40
1995	151,467	13,061	153,644	\$14.24	\$ 0.98	\$ 6.18
1994	138,552	9,191	140,084	\$12.08	\$ 1.19	\$ 6.92

*Equivalent barrels have been calculated on the basis of six thousand cubic feet (6 MCF) of natural gas equals 1 barrel of oil.

**Average production cost includes lifting costs, remedial workover expenses and production taxes.

Gross and Net Productive Wells

As of December 31, 1996, the Registrant's total gross and net productive wells were as follows:

Gross Wells	Productive Wells*		Gross Wells	Net Wells
	Oil	Gas		
96	Net Wells 66.80		24	24.00

*There are no wells with multiple completions. A gross well is a well in which a working interest is owned. The number of net wells represents the sum of fractional working interests the Company owns in gross wells. Productive wells are producing wells plus shut-in wells the Company deems capable of production.

Gross and Net Developed and Undeveloped Acres

As of March 15, 1997, the Registrant had total gross and net developed and undeveloped oil and gas leasehold acres as set forth below. The developed acreage is stated on the basis of spacing units designated by state regulatory authorities.

	Leasehold Acreage*					
	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Montana	9,160	7,632	17,379	17,307	26,539	24,939
North Dakota	7,360	4,482	30,014	10,788	37,374	15,270
Washington	0	0	5,370	5,183	5,370	5,183
ALL STATES	16,520	12,114	52,763	33,278	69,283	45,392

*Gross acres are those acres in which a working interest is owned. The number of net acres represents the sum of fractional working interests the Company owns in gross acres.

Exploratory Wells and Development Wells

For each of the last three fiscal years ended December 31, the number of net exploratory and development productive and dry wells drilled by the Company was as set forth below.

Year	Net Exploratory Wells Drilled		Net Development Wells Drilled		Total Net Wells Drilled
	Productive	Dry	Productive	Dry	
1996	0.00	0.08	0.67	0.00	0.75
1995	0.00	0.00	1.34	0.00	1.34
1994	0.00	0.00	2.00	0.00	2.00

Present Activities

From January 1, 1997 to March 15, 1997, the Registrant had no wells in the process of drilling.

Supply Contracts or Agreements

The Registrant is not obligated to provide a fixed or determinable quantity of oil and gas in the future under any existing contract or agreement, beyond the short term contracts customary in division orders and off lease marketing arrangements within the industry.

Reserve Estimates Filed with Agencies

No estimates of total proved net oil and gas reserves for the year

ended December 31, 1996 have been filed with any federal authority or agency. Other than the estimates of reserves at December 31, 1995, filed with the Securities and Exchange Commission, the Registrant did not file reserve reports with any other federal agencies within the past 12 months.

Silver Property

The Registrant owns seven patented mining claims and 15 unpatented mining claims in Pinal County, Arizona. These claims, known as the Reymert Silver Property, have produced silver sporadically since the 1880's. The property's last ore production was in 1989 under a lease arrangement. In 1993, the Registrant entered into a License Agreement with another company to allow commercial rock production from the patented claims. The Registrant receives a royalty of \$2 per ton for rock severed from the property. No commercial rock production occurred in 1996. No mining activities are presently being conducted on this property. Management has no plans to devote significant financial resources to this property in 1997; however, it continues to investigate ways to further exploit the property.

ITEM 3. LEGAL PROCEEDINGS

On May 12, 1989, the Company filed an action in Burleigh County District Court, North Dakota, against MDU Resources Group, Inc., a Delaware corporation, and Williston Basin Interstate Pipeline Company, a Delaware corporation. The Complaint related to, among other things, breaches of a take or pay natural gas contract and attempts by the defendants to coerce the Company into modifying the contract. The defendants answered the Complaint on June 1, 1989. Afterwards, no further materials were filed with the court, but the Company believed that the case remained pending. Earlier this year, the Company contacted the attorney who filed the action to assess the status and request further prosecution of the case. After several months of inaction regarding the case, the Company contacted the court in September 1996, and was informed by the court that the case had been dismissed in 1991. On January 15, 1997, the Company refiled its action against MDU Resources Group, Inc. Management believes that the Registrant should prevail in its claim, although the extent of any award cannot be predicted at this time.

Other than the foregoing legal proceedings, the Company is not a party, nor is any of its property subject to, any pending material legal proceedings. The Company knows of no legal proceedings contemplated or threatened against it.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 1996, no matter was submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Registrant's Common Stock trades on the Nasdaq SmallCap Market under the Symbol "GEOI." The following table sets forth for the period indicated the lowest and highest trade prices for the Registrant's Common Stock as reported by the Nasdaq Stock Market. These trade prices may represent prices between dealers and do not include retail markups, markdowns or commissions.

Calendar		Trade Price	
		Lowest	Highest
1995	1st Quarter	\$1.00	\$1.75
	2nd Quarter	\$1.25	\$1.62
	3rd Quarter	\$1.12	\$1.50
	4th Quarter	\$1.06	\$1.38
1996	1st Quarter	\$1.25	\$1.63
	2nd Quarter	\$1.44	\$2.06
	3rd Quarter	\$1.38	\$1.88
	4th Quarter	\$1.50	\$4.38

As of March 15, 1997, there were approximately 1,300 holders of record of the Registrant's Common Stock. Management believes that there are also approximately 750 additional beneficial owners of common stock held in "street name".

The Registrant has never declared or paid a cash dividend on its Common Stock nor does it anticipate that dividends will be paid in the near future. Further, certain of the Company's financing agreements restrict the payment of cash dividends. See Note E to the Financial Statements for further information.

ITEM 6. SELECTED FINANCIAL DATA

	1996	1995	1994	1993	1992
Operating Revenue	\$ 3,806,790	\$ 2,874,001	\$ 2,442,850	\$ 2,375,150	\$ 2,498,230
Income (Loss) Before Cumulative Effect of Accounting Change	\$ 733,726	\$ 303,889	\$ 40,141	\$ (1,654,090)	\$ 104,420
Net Income (Loss)	\$ 733,726	\$ 303,889	\$ 40,141	\$ (1,077,090)	\$ 104,420
Income (Loss) Per Share From Continuing Operations	\$.18	\$.08	\$.01	\$ (.41)	\$.03
Per Share AT YEAR END:					
Total Assets	\$ 7,909,965	\$ 6,690,285	\$ 5,796,354	\$ 5,856,396	\$ 7,325,479
Long-term Debt	\$ 998,097	\$ 958,330	\$ 787,035	\$ 1,019,792	\$ 1,129,897
Working Capital (Deficit)	\$ 205,463	\$ (171,949)	\$ (86,786)	\$ 149,646	\$ 261,251
Stockholders' Equity	\$ 4,873,927	\$ 4,114,001	\$ 3,798,549	\$ 3,758,408	\$ 4,789,594

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The Company conducts business through two primary segments: 1) oil and gas exploration and production; and 2) leonardite mining and processing wherein the Company's major products are oil and gas drilling mud additives. Each of the Company's segments is discussed herein.

BUSINESS ENVIRONMENT AND RISK FACTORS

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere herein. The Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, the competitive environment in which the Company operates, oil and gas prices, demand for oil, gas and leonardite, availability of drilling rigs, dependence upon key management personnel, and other uncertain business conditions that may affect the Company's business.

With the exception of historical information, the matters discussed below under the headings "Results of Operations" and "Liquidity and Capital Resources" may include forward-looking statements that involve risks and uncertainties. The Company cautions the reader that a number of important factors discussed herein, and in other reports filed with the Securities and Exchange Commission, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

RESULTS OF OPERATIONS

Comparison of 1996 to 1995 Revenue and Gross Margin

Oil and gas sales were \$2,965,000 in 1996 compared to \$2,170,000 in 1995, an increase of \$795,000 or 37%. This increase in revenue was due to a 24% increase in average oil prices and a 10% increase in the volume of oil and gas sold. The 1996 average oil price was \$17.67 compared to an average of \$14.24 in 1995. The Company periodically uses various New York Mercantile Exchange (NYMEX) crude oil and energy products contracts and options to hedge the risks of oil price declines. See Note J to the Financial Statements for further information. The volume of oil and gas sold in 1996 increased to 169,000 BOE (Barrels of Oil Equivalent) from 154,000 BOE in 1995. The higher 1996 average oil price resulted from substantially higher world oil markets that existed during 1996. The higher 1996 production volumes resulted entirely from production contributed by the Company's Oscar Fossum H2 horizontal well (.67 net) that began production in December 1995.

Oil and gas production costs were \$1,082,000 in 1996 compared to \$950,000 in 1995, an increase of 14%. This \$132,000 increase was caused by a \$46,000 increase in production taxes resulting from higher oil prices, a

\$44,000 increase related to increased workover activity and a \$42,000 increase in winter-related costs including snow removal and increased prices of propane fuel for oil treating facilities. Production costs on a per equivalent barrel basis however, remained relatively stable averaging \$6.40 for 1996 compared to \$6.18 for 1995. The stability in per barrel costs was due to increased production which spread the costs over more barrels. Gross margin for 1996 oil and gas operations before deductions for depletion and selling, general and administrative expenses was \$1,883,000, or 63% of revenue, compared to \$1,220,000, or 56% of revenue, for 1995. The increase in 1996 gross margin was primarily due to higher 1996 oil prices previously discussed.

Leonardite product sales were \$842,000 in 1996 compared to \$704,000 in 1995, an increase of \$138,000, or 20%. This increase was primarily due to an 18% increase in products sold resulting from increased demand for drilling mud additives associated with increased oil and gas drilling in the United States. Production sold in 1996 was 8,909 tons at an average price of \$94.49, compared to 7,528 tons at an average price of \$93.51 for 1995. Variations in the average per ton prices were normal fluctuations associated with the ratio of basic products and specialty products sold during 1996 and 1995.

Cost of leonardite sold was \$667,000 in 1996 compared to \$560,000 in 1995, an increase of \$108,000 or 19%. This increase resulted from the 18% increase in 1996 production. Production costs per ton were \$74.92 and \$74.34 for 1996 and 1995, respectively. Costs per ton were essentially stable for 1996 compared to 1995 and varied only slightly due to the ratio of basic products and specialty products processed in 1995 and 1996.

Gross margin for 1996 leonardite operations before deductions for depreciation and selling, general and administrative expenses was \$174,000, or 21% of revenue, compared to \$144,000, or 20% of revenue, for 1995. The increase in 1996 gross margin was primarily due to the higher product sales previously discussed.

Comparison of 1996 to 1995 Consolidated Analysis

Total revenue for 1996 increased \$933,000, or 32%, to \$3,807,000 from \$2,874,000 in 1995. This increase was due to the higher oil and gas production and prices and increased leonardite product sales previously discussed.

Total operating costs for 1996 increased \$471,000 or 19%, to \$2,923,000 compared to \$2,453,000 in 1995. These increased costs resulted from the higher oil and gas and leonardite production cost previously discussed coupled with higher depreciation, depletion and amortization (DD&A) and selling, general and administrative (SG&A) expenses. SG&A expenses were higher due to increased costs for corporate publicity, shareholder communications and general increases in office activity. SG&A expenses also increased due to the Company's contribution to its employees' profit sharing plan that was \$25,000 higher than the prior year and a non-cash expense incurred in 1996 related to a one time stock grant upon the retirement of an employee. DD&A expenses were higher due to higher oil production levels that increased oil depletion expense.

Higher 1996 total revenue, and to a lesser extent higher total operating costs, resulted in operating income of \$883,000 for 1996. Nonoperating expenses decreased \$25,000 from \$90,000 in 1995 to \$64,000 in 1996, yielding an income before taxes of \$819,000 in 1996 compared to \$332,000 in 1995.

Income tax expense in 1996 was \$86,000 compared to \$28,000 in 1995. The expense amount for each year is reflective of the net changes in the Company's deferred tax assets and deferred tax liabilities under the provisions of SFAS No. 109 and include only a small amount of income taxes currently paid. See Notes A and F to the Financial Statements for further information.

Net income for 1996 was \$734,000 or 18 cents per share compared to a net income of \$304,000 or 8 cents per share in 1995.

Comparison of 1995 to 1994 Revenue and Gross Margin

Oil and gas sales were \$2,170,000 in 1995 compared to \$1,685,000 in 1994, an increase of \$485,000 or 29%. This increase in revenue resulted from an 18% increase in average oil prices combined with a 10% increase in the volume of oil and gas sold. The 1995 average oil price was \$14.24 compared to an average of \$12.08 in 1994. The volume of oil and gas sold in 1995 increased to 154,000 BOE (Barrel of Oil Equivalent) from 140,000 BOE in 1994. The higher 1995 production volumes resulted from production contributed by the Company's Oscar Fossum H1 horizontal well (.67 net) that was drilled and completed in the first quarter of 1995. The Company also drilled a second horizontal well, the Oscar Fossum H2, during 1995; but that well did not begin producing until mid December 1995, and therefore did not have a significant impact on 1995 oil production.

Oil and gas production costs were \$950,000 in 1995 compared to \$969,000 in 1994, a decline of 2%. Costs were lower because the Company performed less workovers during 1995 when its operations and cash flow were focused on horizontal drilling. Production costs on a per equivalent barrel basis averaged \$6.18 in 1995 compared to \$6.92 for 1994. Per barrel costs were lower due to the contribution of lower cost horizontal well "flush" production from the Oscar Fossum H1 well. Gross margin for 1995 oil and gas

operations before depletion and selling, general and administrative (SG&A) expenses was \$1,220,000 or 56% of revenue, compared to \$716,000 or 43% of revenue for 1994. The increase in gross margin was due to the increased average oil price and production volumes previously discussed.

Leonardite sales were \$704,000 in 1995 compared to \$758,000 in 1994, a decline of 7%. This decline was due to an 8% decrease in production sold, resulting from lower demand. Production sold in 1995 was 7,528 tons at an average price of \$93.51 per ton, compared to 8,141 tons at an average price of \$93.05 for 1994.

Cost of leonardite sold was \$560,000 in 1995 compared to \$585,000 in 1994, a decline of 4%. This decline resulted from the lower 1995 production. Production costs per ton were \$74.34 and \$71.89 for 1995 and 1994 respectively. Costs per ton for 1995 were higher than 1994 due to the lower production volume which spread fixed costs over fewer tons.

Gross margin for 1995 leonardite operations before depreciation and SG&A expenses was \$144,000 or 20% of revenue, compared to \$172,000 or 23% of revenue, for 1994. The decline in 1995 gross margin was due to the lower production level.

Comparison of 1995 to 1994 Consolidated Analysis

Total revenue for 1995 increased \$431,000 or 18% to \$2,874,000 from \$2,443,000 in 1994. This increase was due to the oil revenue increase previously discussed.

Total operating costs for 1995 increased \$120,000 or 5% to \$2,453,000 from \$2,333,000 in 1994. Operating costs increased in 1995 because of higher depletion and SG&A expenses. Depletion expense increased due to increases in full cost pool assets associated with horizontal drilling done in 1995 and undeveloped locations planned in the next three years. SG&A expense increased because the Company made a more substantial contribution to its employees' profit sharing plan in light of the higher 1995 net income.

Due to higher revenue, operating income for 1995 increased \$311,000 or 282% to \$421,000 compared to \$110,000 in 1994. Nonoperating expense for 1995 increased \$27,000 or 44% to \$90,000 compared to \$62,000 in 1994. Higher nonoperating expenses were primarily the result of higher interest expense. As a result of higher operating income, 1995 income before taxes increased \$284,000 or 592% to \$332,000 compared to \$48,000 in 1994.

Income tax expense in 1995 was \$28,000 compared to \$8,000 in 1994. The expense amount for each year reflects the net changes in the Company's deferred tax assets and liabilities.

Net income for 1995 increased \$264,000 or 660% to \$304,000 (8 cents per share) compared to \$40,000 (1 cent per share) in 1994.

LIQUIDITY AND CAPITAL RESOURCES AT YEAR END 1996.

At December 31, 1996, the Company had current assets of \$2,018,000 compared to current liabilities of \$1,813,000 for a current ratio of 1.11 to 1 and working capital of \$205,000. This compares to a current ratio of .88 to 1 at December 31, 1995 and a negative working capital of \$172,000. The \$377,000 change in working capital was primarily due to cash flow provided by the Oscar Fossum H2 "flush" oil production accompanied by the 24% higher oil prices.

During the year ended December 31, 1996, the Company generated cash flows from operating activities of \$1,150,000 which is \$346,000 greater than the amount generated during 1995. This increase was due to increased production and higher oil prices. Management believes that cash flows from operations for 1997 should increase above 1996 levels particularly if the Company continues successful horizontal development of certain of its properties. During the fourth quarter of 1996, the Company drilled one horizontal well (1 gross, .67 net) in one of its existing fields. The Oscar Fossum H3 was drilled and completed successfully, and was put on production in December 1996. The Company anticipates that cash flows from operations and the remaining \$425,000 available under an existing \$1,000,000 line of credit will be sufficient to meet its short-term cash requirements.

During 1996, the Company's investing activities totaled \$596,000 which was primarily for additions to property, plant and equipment. The \$583,000 cash portion of additions to property and equipment consists of the approximate amounts as follows: exploration and development costs of \$463,000 that included the paid portion of costs for drilling and completing the Oscar Fossum H2 horizontal oil well; proved property acquisition costs of \$43,000 that included the cost of acquiring interests in several producing wells; unproved property costs of \$21,000 primarily for oil and gas lease costs; delay rental costs of \$27,000; and improvements to the Company's leonardite plant of \$29,000. Over and above the additions to property and equipment, the Company also used \$13,000 to fund oil and gas leasehold purchases in the State of Washington. During 1996, the Company's financing activities also utilized \$514,000 of cash for principal payments required under long-term debt agreements.

The sources of cash in 1996 for the investing and financing activities discussed above were the cash flows provided by operating activities and \$325,000 of borrowings on the Company's 1995 revolving line of credit.

During fiscal 1997, the Company estimates it will incur development costs of \$800,000 related to the Company's proved developed nonproducing and proved undeveloped oil and gas properties. This estimated amount is somewhat uncertain at this time because the Company could, relatively quickly, decide to either increase or reduce the level of horizontal drilling contemplated for 1997, depending upon the availability of drilling rigs and the outlook for oil and gas prices. Other planned expenditures for 1997 consist of delay rentals and other exploration costs of approximately \$100,000. Capital expected to be used for 1997 principal payments required under existing debt agreements totals \$283,000.

Management expects to continue to evaluate possible future purchases of additional producing oil and gas properties and the further development of currently owned properties. Management believes the Company's long-term cash requirements for such investing activities and the repayment of long-term debt can be met by the continued future cash flows from operations, and, if necessary, possible forward sales of oil reserves or additional debt or equity financing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See "Index to Consolidated Financial Statements and Supplementary Data" on page 25.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information concerning each director and executive officer of the Company:

Name and Age	Position(s) with the Company	Period of Service as a Director or Officer
Jeffrey P. Vickers Age: 44	President and Director	Since 1982
Thomas F. Neubauer Age: 62	Vice President of Leonardite Operations	Since June, 1992
Cathy Kruse Age: 42	Secretary, Treasurer and Director	Since October, 1981; October, 1981 to May, 1985 and since June, 1990; since June, 1996
H. Dennis Hoffelt Age: 56	Director	From 1967 through June, 1986; and since June, 1987
Joseph V. Montalban Age: 73	Director	Since June, 1996

All of the directors' terms expire at the next annual meeting of shareholders or when their successors have been elected and qualified. The executive officers of the Company serve at the discretion of the Board of Directors.

Jeffrey P. Vickers received a Bachelor of Science degree in Geological Engineering with a Petroleum Engineering option from the University of North Dakota in 1978. Prior to obtaining his degree, Mr. Vickers served two years overseas with the U.S. Army. In 1979, Mr. Vickers joined Amerada Hess Corporation as an Associate Petroleum Engineer in the Williston Basin. In 1981, Mr. Vickers was employed by the Company as the Drilling and Production Manager where he was responsible for providing technical assistance and supervision of drilling and production operations and generated development drilling programs. He became President of the Company on January 1, 1983. In June, 1982, Mr. Vickers became a director of the Company.

Thomas F. Neubauer is Vice President of Leonardite Operations and plant manager of the Company. Mr. Neubauer has been employed by the Company since July, 1965.

Cathy Kruse is Secretary, Treasurer and business office manager of the Company. Ms. Kruse graduated from the Atlanta College of Business in 1977 and was employed as a Legal Assistant for four years prior to her employment with the Company in May, 1981. In June, 1996, Ms. Kruse became a director of the Company.

H. Dennis Hoffelt has been President of Triangle Electric Inc., Williston, North Dakota, an electrical contracting firm, for over the past five years. He served as a director of the Company from 1967 through June of 1986 and was elected as a director again in 1987.

Joseph V. Montalban has been a director of the Company since June, 1996. He is a petroleum engineering consultant and was the founder of Mountain States Resources, Inc. and Monte Grande Exploration Ltd., the companies that merged to create MSR Exploration Ltd. He held various offices on the MSR Board until his resignation in 1994. Mr. Montalban is the President and Chief Executive Officer of Montalban Oil & Gas Operations, Inc.

Cathy Kruse, Secretary and Treasurer of the Company, is the sister-in-law of Jeffrey P. Vickers. No other family relationship exists between or among any of the above named persons. There are no arrangements or undertakings between any of the named directors and any other persons pursuant to which any director was selected as a director or was nominated as a director. Based solely upon a review of Forms 3, 4 and 5 furnished to the Company, no officer or director failed to file any of the above forms on a timely basis.

ITEM 11. EXECUTIVE COMPENSATION

The following table presents the aggregate compensation which was earned by the Chief Executive Officer for each of the past three years. No employee of the Company earned total annual salary and bonus in excess of \$100,000. There has been no compensation awarded to, earned by or paid to any employee required to be reported in any table or column in any fiscal year covered by any table, other than what is set forth in the following table.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Other Annual Compensation	Long Term Compensation Awards			All Other Compensation
		Salary (\$)	Bonus (\$)		Restricted Stock Award(s) (\$)	Options SARs (#)	LTI Payouts (\$)	
Jeffrey P. Vickers	1996	\$78,443	-0-	-0-	N/A	-0-	N/A	\$11,766
	1995	\$74,659	-0-	-0-	\$925	35,000	N/A	\$8,150
	1994	\$73,929	-0-	-0-	N/A	-0-	N/A	\$2,384

In the table above, the column titled "Restricted Stock Awards" is comprised of a 1995 grant of 1,000 shares of common stock from the Registrant to each full-time employee, including Jeffrey P. Vickers. Restricted Stock Awards are "restricted securities" as defined in Rule 144 adopted under the Securities Act of 1933. The column titled "All Other Compensation" is comprised entirely of profit sharing amounts.

If the Company achieves net income in a fiscal year, the Board of Directors may determine to contribute an amount based on the Company's profits to the Employees' Profit Sharing Plan and Trust adopted in December, 1978 (the "Profit Sharing Plan"). An eligible employee may be allocated from 0% to 15% of his compensation depending upon the total contribution to the plan. A total of 20% of the amount allocated to an individual vests after three years of service, 40% after four years, 60% after five years, 80% after six years and 100% after seven or more years. On retirement, an employee is eligible to receive the vested amount. On death, 100% of the amount allocated to an individual is payable to the employee's beneficiary. The Company accrued a \$60,000 contribution for 1996 with contributions for 1995 and 1994 being \$35,000 and \$10,000, respectively. As of December 31, 1996, vested amounts in the Profit Sharing Plan for all officers as a group were approximately \$360,000.

Aggregated Option/SAR Exercises in last Fiscal Year and FY-End Option/SAR Values

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Value of Unexercised In-the-Money Options/SARs at FY-End (\$)	
			Number of Unexercised Options/SARs at FY-End (#)	Exercisable/Unexercisable
Jeffrey P. Vickers, CEO	-0-	-0-	35,000/0	\$69,125/0

At the 1993 Annual Meeting of Shareholders, the Company's 1993

Employees' Incentive Stock Option Plan (the "Plan") was approved by shareholders. The purpose of the plan is to enable the Corporation to attract persons of training, experience and ability to continue as employees, and to furnish additional incentive to such persons, upon whose initiative and efforts the successful conduct and development of the business of the Corporation largely depends, by encouraging such persons to become owners of the common stock of the Corporation.

The term of the Plan expires February 17, 2003, ten years from the date the Plan was approved by the Board of Directors. If within the duration of an option there shall be a corporate merger consolidation, acquisition of assets, or other reorganization, and if such transaction shall affect the optioned stock, the optionee shall thereafter be entitled to receive upon exercise of his option those shares or securities that he would have received had the option been exercised prior to such transaction and the optionee had been a stockholder of the Corporation with respect to such shares.

The Plan is administered by the Board of Directors. The exercise price of the common stock offered to eligible participants under the Plan by grant of an option to purchase common stock may not be less than the fair market value of the common stock at the date of grant; provided, however, that the exercise price shall not be less than 110% of the fair market value of the common stock on the date of grant in the event an optionee owns 10% or more of the common stock of the Corporation. A total of 300,000 shares have been reserved for issuance pursuant to options to be granted under the Plan. Of the 300,000 reserved shares, there are 95,000 shares which are subject to outstanding options issued pursuant to the plan

Directors' Compensation

The officers of the Company who are also directors receive no additional compensation for attendance at Board meetings. Directors other than Rollin C. Vickers (who retired from the Board on December 31, 1996), Jeffrey P. Vickers and Cathy Kruse, were paid \$150 per Board meeting attended during 1996.

ITEM 12. PRINCIPAL SHAREHOLDERS AND MANAGEMENT SHAREHOLDERS

The following table sets forth the number of shares of common stock beneficially owned by each officer, director and nominee for director of the Company and by all directors and officers as a group, as of March 15, 1997. Unless otherwise indicated, the shareholders listed in the table have sole voting and investment powers with respect to the shares indicated.

Class of Securities	Name of Person or Number of Directors and Officers as a Group	Amount of Shares and Nature of Beneficial Ownership	Percent of Class
Common Stock, \$.01 par value	Jeffrey P. Vickers	303,934-Direct and Indirect(a)	7.5%
Common Stock, \$.01 par value	Paul A. Krile	207,500-Direct(b)	5.1%
Common Stock, \$.01 par value	Cathy Kruse	9,950-Direct(d)	(c)
Common Stock, \$.01 par value	Thomas F. Neubauer	11,000-Direct(e)	(c)
Common Stock, \$.01 par value	H. Dennis Hoffelt	39,000-Direct and Indirect(f)	(c)
Common Stock, \$.01 par value	Joseph V. Montalban	546,800-Direct(g)	13.5%
Common Stock, \$.01 par value	Officers and Directors as a Group- (six persons)	1,118,184-Direct and Indirect (a) (b) (c) (d) (e) (f) (g)	27.5%

(a) Included in the 303,934 shares listed for Jeffrey P. Vickers are 139,634 shares owned directly by him, 2,500 in a self-directed individual retirement account, 70,000 shares held jointly with his wife, Nancy J. Vickers, 25,500 shares held directly by his wife, 1,300 shares in his wife's self-directed individual retirement account, and an aggregate 30,000 shares held by him as custodian for his three minor children. Also included are 35,000 shares which may be purchased by Mr. Vickers under presently exercisable stock options granted pursuant to the Company's 1993 Employees' Incentive Stock Option Plan.

(b) Mr. Krile has sole voting and investment powers over these shares.

(c) Less than 1%.

- (d) Included in the 9,950 are 5,000 shares which may be purchased by Ms. Kruse under presently exercisable stock options granted pursuant to the Company's 1993 Employees' Incentive Stock Option Plan.
- (e) Included in the 11,000 are 5,000 shares which may be purchased by Mr. Neubauer under presently exercisable stock options granted pursuant to the Company's 1993 Employees' Incentive Stock Option Plan.
- (f) Mr. Hoffelt has sole voting and investment power over 11,500 of shares and has shared voting and investment powers over the remaining 27,500.
- (g) Mr. Montalban has sole voting and investment powers over these shares.

The following table sets forth information concerning persons known to the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock as of March 15, 1997.

Class of Securities	Name and Address of Person	Amount of Shares and Nature of Beneficial Ownership	Percent of Class
Common Stock, \$.01 par value	Joseph V. Montalban Montalban Oil & Gas Operations, Inc. Box 200 Cut Bank, MT 59247	546,800-Direct (a)	13.5%
Common Stock, \$.01 par value	Jeffrey P. Vickers 1814 14th Ave. W. Williston, ND 58801	303,934-Direct and Indirect (b)	7.5%
Common Stock, \$.01 par value	Paul Krile P. O. Box 329 Sioux Rapids, IA 50585	207,500-Direct (a)	5.1%

(a) This information was obtained from a Securities and Exchange Commission filing.

(b) See footnote (a) of the immediately preceding table.

No arrangements are known by the Company which could, at a subsequent date, result in a change in control of the Company.

The Company is not aware of any officer, director or holder of greater than 10% of the Company's common stock who has failed to file the required SEC Forms 3, 4 or 5 on a timely basis for 1996.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no transactions or series of similar transactions since the beginning of the Company's last fiscal year or any currently proposed transaction or series of similar transactions to which the Company was or is to be a party, and which the amount involved exceeds \$10,000 and in which any director, executive officer, principal shareholder or any member of their immediate family had or will have a direct or indirect material interest.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) Documents filed as Part of this Report
 - (1) Financial Statements and Schedules See "Index to Consolidated Financial Statements and Supplementary Data" on next page. There are no financial statement schedules filed herewith.
 - (2) Disclosures About Oil and Gas Producing Activities-Unaudited See "Index to Consolidated Financial Statements and Supplementary Data" on next page.
 - (3) Exhibits See "Exhibit Index" on page 51.
- (b) Reports on Form 8-K
None.
- (c) Exhibits required by Item 601 of Regulation S-K
See (a) (3) above.
- (d) Financial Statement Schedules required by Regulation S-X
See (a) (1) above.

GEORESOURCES, INC., AND SUBSIDIARY
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA

	Page
REPORT OF INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS	26
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	27
Consolidated statements of operations	28
Consolidated statements of stockholders' equity	29
Consolidated statements of cash flows	30 - 31
Notes to consolidated financial statements	32 - 45
UNAUDITED SUPPLEMENTARY INFORMATION - Disclosures about oil and gas producing activities	46 - 49

WILLIAMS, RICHEY & CO.

REPORT OF INDEPENDENT AUDITORS ON THE
CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholders
GeoResources, Inc.

We have audited the accompanying consolidated balance sheets of GeoResources, Inc., and Subsidiary as of December 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1996, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GeoResources, Inc., and Subsidiary as of December 31, 1996 and 1995, and the results of its operations and its cash flows for the years ended December 31, 1996, 1995 and 1994, in conformity with generally accepted accounting principles.

/s/ Williams, Richey & Co.

Denver, Colorado
February 14, 1997

A PROFESSIONAL CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
950 SOUTH CHERRY STREET; SUITE 918; DENVER, CO 80222;
303/759-3773; FAX 303/759-1168

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1996 AND 1995

ASSETS		
CURRENT ASSETS:	1996	1995
Cash and equivalents	\$ 754,888	\$ 392,078
Trade receivables, net	936,045	590,330
Inventories	251,499	285,018
Prepaid expenses	18,201	17,460
Investments	57,771	10,119
Total current assets	2,018,404	1,295,005
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Oil and gas properties, using the full cost method of accounting:		
Properties being amortized	16,450,061	15,272,170
Properties not subject to amortization	18,199	88,759
Leonardite plant and equipment	3,216,597	3,199,797
Other	693,641	672,546
Total	20,378,498	19,233,272
Less accumulated depreciation, depletion, amortization and impairment	(14,708,047)	(14,045,602)
Net property, plant and equipment	5,670,451	5,187,670
OTHER ASSETS:		
Mortgage loans receivable, related party	103,321	103,321
Other	117,789	104,289
Total other assets	221,110	207,610
TOTAL ASSETS	\$ 7,909,965	\$ 6,690,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,343,677	\$ 856,823
Current maturities of long-term debt	283,200	511,594
Accrued expenses	186,064	98,537
Total current liabilities	1,812,941	1,466,954
LONG-TERM DEBT, less current maturities	998,097	958,330
DEFERRED INCOME TAXES	225,000	151,000
CONTINGENCIES (NOTE H)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued and outstanding, 4,060,714 and 4,035,714 shares, respectively	40,607	40,357
Additional paid-in capital	829,757	803,807
Retained earnings	4,003,563	3,269,837
Total stockholders' equity	4,873,927	4,114,001
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,909,965	\$ 6,690,285

The accompanying notes are an integral part of these consolidated financial statements

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
OPERATING REVENUE:			
Oil and gas sales	\$ 2,964,939	\$ 2,170,057	\$ 1,685,316
Leonardite sales	841,851	703,944	757,534
	3,806,790	2,874,001	2,442,850
OPERATING COSTS AND EXPENSES:			
Oil and gas production	1,082,324	950,116	968,977
Cost of leonardite sold	667,437	559,659	585,217
Depreciation, depletion and amortization	674,805	601,814	470,075
Selling, general and administrative	498,882	341,008	308,380
	2,923,448	2,452,597	2,332,649
Operating income	883,342	421,404	110,201
OTHER INCOME (EXPENSE):			
Interest expense	(113,384)	(128,689)	(103,328)
Interest income	18,287	10,808	15,741
Other income and losses, net	31,050	28,366	25,509
	(64,047)	(89,515)	(62,078)
Income before income taxes	819,295	331,889	48,123
INCOME TAX EXPENSE	85,569	28,000	7,982
Net income	\$ 733,726	\$ 303,889	\$ 40,141
EARNINGS PER SHARE	\$.18	\$.08	\$.01
Weighted average number of shares outstanding	4,056,274	4,025,234	4,023,214

The accompanying notes are an integral part of these
consolidated financial statements

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
Balance, December 31, 1993	4,023,214	\$40,232	\$792,369	\$2,925,807	\$3,758,408
Net income	--	--	--	40,141	40,141
Balance, December 31, 1994	4,023,214	40,232	792,369	2,965,948	3,798,549
Issuance of common stock as compensation	12,500	125	11,438	--	11,563
Net income	--	--	--	303,889	303,889
Balance, December 31, 1995	4,035,714	40,357	803,807	3,269,837	4,114,001
Issuance of common stock as compensation	25,000	250	25,950	--	26,200
Net income	--	--	--	733,726	733,726
Balance, December 31, 1996	4,060,714	\$40,607	\$829,757	\$4,003,563	\$4,873,927

The accompanying notes are an integral part of these
consolidated financial statements

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 733,726	\$ 303,889	\$ 40,141
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	674,805	601,814	470,075
Deferred income taxes	74,000	28,000	7,982
Issuance of common stock as compensation	26,200	11,563	--
Other	2,192	2,326	2,357
Changes in assets and liabilities:			
Decrease (increase) in:			
Trade receivables	(345,715)	(96,735)	(124,445)
Inventories	33,519	(38,551)	81,299
Prepaid expenses and other	(741)	(187)	29,650
Investments	(47,652)	10,853	3,360
Increase (decrease) in:			
Accounts payable	(87,604)	(78,831)	135,428
Accrued expenses	87,527	59,473	12,089
Net cash provided by operating activities	1,150,257	803,614	657,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(583,128)	(899,677)	(646,571)
Purchase of investments and mortgage loans receivable	--	--	(18,943)
Proceeds from sale of property and equipment	--	20,234	143,385
Other	(12,756)	(47,215)	(19,047)
Net cash used in investing activities	(595,884)	(926,658)	(541,176)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	325,000	665,000	100,000
Principal payments on long-term debt	(513,627)	(367,330)	(319,215)
Debt issue costs	(2,936)	(5,225)	--
Net cash provided by (used in) financing activities	(191,563)	292,445	(219,215)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	362,810	169,401	(102,455)
CASH AND EQUIVALENTS, beginning of year	392,078	222,677	325,132
CASH AND EQUIVALENTS, end of year	\$ 754,888	\$ 392,078	\$ 222,677

The accompanying notes are an integral part of these consolidated financial statements

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994

	1996	1995	1994
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid (received) for:			
Interest	\$ 114,850	\$ 127,990	\$ 102,258
Income taxes	1,569	336	(483)

NONCASH INVESTING AND FINANCING ACTIVITIES

During 1994, the Company forgave approximately \$24,500 of accounts receivable as partial consideration of the purchase price of various oil and gas assets.

The accompanying notes are an integral part of these consolidated financial statements

GEORESOURCES, INC., AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of GeoResources, Inc., and its 80% owned subsidiary, Belmont Natural Resource Company, Inc. ("BNRC"). All material intercompany transactions and balances between the entities have been eliminated. The minority interest in BNRC is not presented, as the amount is immaterial.

GeoResources, Inc. (the "Company") is primarily involved in oil and gas exploration, development and production in North Dakota and Montana and the mining of leonardite and manufacturing of leonardite products in North Dakota to be sold to customers located primarily in the Gulf of Mexico coastal areas. BNRC was incorporated in 1991 to exploit natural gas opportunities in the Pacific Northwest. All properties of the Company and BNRC are located in the United States.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the unaudited quantity of oil and gas reserves which directly effects the computation of depletion of oil and gas properties. It is at least reasonably possible that the estimates used will change within the next year.

Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments

The Company's investments consist of marketable equity securities and various derivative financial instruments related to crude oil and other energy products.

Marketable equity securities are stated at market value. Securities acquired with the intent to resell in order to profit from short-term price movements are classified as trading account securities and related unrealized gains and losses are included in other income. Other securities are classified as assets available-for-sale and related unrealized gains or losses are recorded as a component of stockholders' equity. The specific security sold is used to compute realized gains or losses. All of the Company's securities are classified as trading account securities.

The Company periodically uses various derivative financial instruments to hedge a portion of future oil sales against the risk of possible decreases of crude oil prices. These instruments are accounted for as hedges and, accordingly, gains and losses are deferred and recognized when the future oil sales occur.

Oil and Gas Properties

The Company utilizes the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration and development of oil and gas reserves (including costs of abandoned leaseholds, delay lease rentals, dry hole costs, geological and geophysical costs, certain internal costs associated directly with acquisition, exploration and development activities, and site restoration and environmental exit costs) are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. The Company's oil and gas depreciation, depletion and amortization rate per equivalent barrel of oil produced was \$3.27, \$3.09, and \$2.51 for 1996, 1995, and 1994, respectively.

In addition, the capitalized costs are subject to a "ceiling test," which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Gains or losses are not recognized upon the sale or other disposition of oil and gas properties, except in extraordinary transactions.

Costs not being amortized at December 31, 1996, consist of the unevaluated, unimpaired cost of undeveloped oil and gas properties which were acquired during the following years:

1996	\$	1,074
1995		875
1994		10,580
1993 and prior		5,670
Total	\$	18,199

It is expected that evaluation of the above properties will occur primarily over the next four years.

Other Property and Equipment

Depreciation of other property and equipment is computed principally on the straight-line method over the following estimated useful lives:

Buildings	10-25 years
Machinery and equipment	3-10 years

Impairment of Long-Lived Assets

Potential impairment of long-lived assets (other than oil and gas properties) is reviewed whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Impairment is recognized when the estimated future net cash flows (undiscounted and without interest charges) from the asset are less than the carrying amount of the asset. No impairment losses have been recognized on long-lived assets for the years ended December 31, 1996, 1995 and 1994.

Operating Costs and Expenses

Oil and gas production costs and the cost of leonardite sold exclude a provision for depreciation and depletion. Depreciation and depletion expense is shown in the aggregate in the accompanying statements of operations.

Stock-based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation. The Company currently accounts for its stock-based compensation plans using the accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Since the Company is not required to adopt the fair value based recognition provisions prescribed under SFAS No. 123, it has elected only to comply with the disclosure requirements set forth in the Statement, which includes disclosing pro forma net income as if the fair value based method of accounting had been applied. (See Note G).

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. A valuation allowance is provided for deferred tax assets not expected to be realized.

The Company and BNRC file separate income tax returns with income tax provision and liability computed on a separate return basis.

Net Income Per Share of Common Stock

Net income per share has been computed based on the weighted average number of common shares outstanding. The assumed exercise of stock options is not included because the effect would not be significant.

B. INDUSTRY SEGMENTS AND MAJOR CUSTOMER:

Segment information

The Company conducts all of its operations within the United States, which consist principally of oil and gas exploration and production and the mining and processing of leonardite. There are no sales or other transactions between these two business segments. Presented below is information concerning the Company's business segments for the years ended December 31, 1996, 1995 and 1994:

	1996	1995	1994
Revenue:			
Oil and gas	\$2,964,939	\$2,170,057	\$1,685,316
Leonardite	841,851	703,944	757,534
	\$3,806,790	\$2,874,001	\$2,442,850
Operating income:			
Oil and gas	\$1,330,169	\$ 744,465	\$ 364,426
Leonardite	40,737	10,657	46,041
General corporate activities	(487,564)	(333,718)	(300,266)
	\$ 883,342	\$ 421,404	\$ 110,201
Depreciation and depletion:			
Oil and gas	\$ 552,446	\$ 475,476	\$ 351,913
Leonardite	107,087	111,958	105,590
General corporate activities	15,272	14,380	12,572
	\$ 674,805	\$ 601,814	\$ 470,075
Identifiable assets, net:			
Oil and gas	\$5,014,782	\$4,110,608	\$3,335,013
Leonardite	1,501,054	1,552,442	1,600,094
General corporate activities	1,394,129	1,027,235	861,247
	\$7,909,965	\$6,690,285	\$5,796,354
Capital expenditures incurred:			
Oil and gas	\$1,156,842	\$1,162,393	\$ 634,914
Leonardite	29,160	26,264	17,199
General corporate activities	21,095	4,095	11,011
	\$1,207,097	\$1,192,752	\$ 663,124

Major Customer and Concentrations of Credit Risk

Sales to a major oil and gas customer were 65%, 53% and 46% of total revenue for the years ended December 31, 1996, 1995 and 1994, respectively. Accounts receivable from this major customer were 38% and 47% of total accounts receivable at December 31, 1996 and 1995, respectively.

The Company has two bank accounts with balances of approximately \$458,000 and \$242,000, at December 31, 1996. Each account is federally-insured for balances up to \$100,000.

C. TRADE RECEIVABLES AND INVENTORIES:

Trade receivables at December 31, 1996 and 1995 are comprised of the following:

	1996	1995
Oil and gas purchasers	\$ 700,833	\$ 426,463

Leonardite customers	246,628	175,283
	947,461	601,746
Less allowance for doubtful accounts	(11,416)	(11,416)
	\$ 936,045	\$ 590,330

As of December 31, 1996 and 1995, inventories by major classes are comprised of the following:

	1996	1995
Crude oil	\$ 36,022	\$ 21,222
Leonardite inventories:		
Finished products	52,543	73,937
Raw materials	94,387	111,342
Materials and supplies	68,547	78,517
Total leonardite inventories	215,477	263,796
	\$ 251,499	\$ 285,018

D. MORTGAGE LOANS RECEIVABLE, RELATED PARTY

Mortgage loans receivable, related party represent mortgage loans on the residence of an officer/shareholder of BNRC purchased from a third party in November 1993, and are recorded at purchase cost. The mortgages require monthly payments of interest at 8% per annum with principal due January 14, 1999. The Company received interest income from these loans of \$8,100, \$8,100 and \$8,775, for the years ended December 31, 1996, 1995 and 1994, respectively.

E. LONG-TERM DEBT:

Long-term debt at December 31, 1996 and 1995 consists of the following loans which are all with one bank:

	1996	1995
Bank, prime plus 1% (9.25% total rate at December 31, 1996), due in monthly installments of \$7,600 plus interest, due December 1998, unsecured	\$ 181,297	\$ 272,497
Bank, prime plus 1% (9.25% total rate at December 31, 1996), due in monthly installments of \$16,000 plus interest, due September 1999, collateralized by oil and gas properties	525,000	717,000
Bank, \$1,000,000 revolving line of credit, interest payable monthly at prime plus 1%, not to exceed 10.5% (9.25% total rate at December 31, 1996), expires September 1, 1998. Outstanding balance to be converted on that date to a 4-year term loan due September 1, 2002. Collateralized by oil and gas properties	575,000	250,000
Two loans, fully repaid as scheduled during 1996	--	230,427
Total long-term debt	1,281,297	1,469,924
Less current maturities	(283,200)	(511,594)
Long-term debt, less current maturities	\$ 998,097	\$ 958,330

Aggregate maturities required on long-term debt at December 31, 1996, are as follows:

Year Ending December 31:	
1997	\$ 283,200
1998	282,097
1999	188,917
2000	143,750
2001	143,750
Remainder	239,583
	\$1,281,297

The Company's borrowing base for debt secured by oil and gas properties is limited by the net present value of future oil and gas production of the properties as determined annually by the bank.

The Company's long-term debt was obtained pursuant to financing agreements which include the following covenants: Maintain a current ratio of not less

than 1.25 to 1 exclusive of current maturities of long-term debt; maintain debt to tangible net worth of not more than 1.5 to 1; maintain a net worth of at least \$3,500,000; not encumber any of its assets; restricts borrowings from, and credit extensions to, other parties; restricts reorganization or mergers in which the Company is not the surviving corporation; and not pay cash dividends without the bank's consent.

F. INCOME TAXES:

The components of income tax expense for the years ended December 31, 1996, 1995 and 1994, are as follows:

	1996	1995	1994
Current tax expense	\$ 11,569	\$ --	\$ --
Deferred tax expense	232,000	95,000	6,982
Increase (decrease) in deferred tax assets valuation allowance	(158,000)	(67,000)	1,000
	\$ 85,569	\$ 28,000	\$ 7,982

During 1994, there was no significant change in the Company's total gross deferred tax assets, the valuation allowance or deferred tax liabilities. During 1996 and 1995, the Company recorded a deferred tax expense of \$232,000 and \$95,000, respectively. This related primarily to net income which was not currently taxable due to the deduction of intangible drilling costs for tax purposes in 1996 and the utilization of net operating loss carryforwards in 1995. The Company also decreased the deferred tax asset valuation allowance by \$158,000 and \$67,000 during 1996 and 1995, respectively, primarily based upon the projection of utilizing additional statutory depletion carryforwards in the future.

The tax effects of significant temporary differences and carryforwards which give rise to the Company's deferred tax assets and liabilities at December 31, 1996 and 1995, are as follows:

	1996	1995
Deferred Tax Assets:		
Net operating loss carryforward	\$ 278,000	\$ 293,000
Statutory depletion carryforward	983,000	928,000
Investment tax credit carryforward	226,000	283,000
Other	70,000	44,000
	1,557,000	1,548,000
Valuation Allowance:		
Beginning of year	(909,000)	(976,000)
(Increase) decrease	158,000	67,000
End of year	(751,000)	(909,000)
Deferred Tax Liabilities:		
Accumulated depreciation and depletion	(1,031,000)	(790,000)
Net Deferred Tax Liability, long-term	\$ (225,000)	\$ (151,000)

The provision for income taxes does not bear a normal relationship to pre-tax earnings. A reconciliation of the U.S. federal income tax rate with the actual effective rate for the years ended December 31, 1996, 1995 and 1994 is as follows:

	1996	1995	1994
Income tax expense at statutory rate	35%	35%	35%
Loss carryover benefits	--	(14)	--
Change in valuation allowance	(20)	(21)	2
Graduated tax rate difference	(13)	--	(20)
State income taxes and other	8	8	--
	10%	8%	17%

For income tax purposes, the Company has a statutory depletion carryover of approximately \$3,090,000 which, subject to certain limitations, may be utilized to reduce future taxable income. This carryforward does not expire. The Company also has net operating loss carryovers and investment tax credit carryovers (accounted for using the flow-through method), which, if not utilized, expire as follows:

Year of expiration	Net operating loss carryover	Investment tax credit carryover
1997	\$ --	\$ 181,000
1998-2000	--	45,000
2001	421,000	--
2003	102,000	--
2008	115,000	--
2009	237,000	--

Total \$ 875,000 \$ 226,000

G. STOCK OPTION AND PROFIT-SHARING PLANS:

Stock option plan

In 1993, the Company adopted the 1993 Incentive Stock Option Plan, whereby 300,000 shares of the Company's common stock are reserved for options which may be granted pursuant to the terms of the plan. Under the terms of the plan, the option price may not be less than 100% of the fair market value of the Company's common stock on the date of grant, and if the optionee owns more than 10% of the voting stock, the option price per share shall not be less than 110% of the fair market value. Since the inception of the plan, options have been granted (all during 1995) to purchase 95,000 shares of common stock at an exercise price of \$1.15 per share through November 3, 2000. No options were exercised through December 31, 1996.

The Company applies the provisions of APB Opinion 25 in accounting for its plan. Accordingly, no compensation cost was recognized for the options granted in 1995. Had compensation cost been determined consistent with the method of SFAS No. 123, the fair value of the options estimated on the date of grant would have been \$37,050. Accordingly, the Company's 1995 net income and earnings per share would have been reduced to pro forma amounts of \$269,839 and \$.07, respectively. The fair value of the options on the date of grant is estimated using the Black-Scholes option-pricing model with the following assumptions: expected volatility of 31%, risk-free interest rate of 5.77%, expected lives of 4 years and no expected dividends.

Profit-sharing plan

The Company has an Employee Profit-Sharing Plan covering all employees who meet the eligibility requirements set forth in the plan. Contributions to the plan are at the discretion of the Board of Directors. Profit-sharing plan expense for the years ended December 31, 1996, 1995 and 1994 was \$60,000, \$35,000, and \$10,000, respectively.

H. CONTINGENCIES:

All of the Company's operations are generally subject to federal, state or local environmental regulations. The Company's oil and gas business segment is affected particularly by those environmental regulations concerned with the disposal of produced oilfield brines and other wastes. The Company's leonardite mining and processing segment is subject to numerous state and federal environmental regulations, particularly those concerned with air quality at the Company's processing plant, and surface mining permit and reclamation regulations. The amount of future environmental compliance costs cannot be determined at this time.

I. OFFICE FACILITIES:

In 1991, the Company purchased an office building, one-third of which it occupies. The building is included in other property and equipment in the accompanying balance sheets and consists of the following at December 31, 1996 and 1995:

	1996	1995
Building and improvements	\$ 163,834	\$ 163,834
Accumulated depreciation	(47,371)	(39,180)
	\$ 116,463	\$ 124,654

The Company leases the remainder of the building to unaffiliated businesses under cancelable lease agreements. During 1996, 1995 and 1994, the Company received \$20,938, \$19,500, and \$18,300, respectively, in rental income from the building which is included in other income in the accompanying statements of operations.

J. FINANCIAL INSTRUMENTS:

The carrying amounts reflected in the consolidated balance sheets for cash and equivalents approximates their fair value due to the short maturity of the instruments. The carrying amount of marketable equity securities is fair value based on quoted market prices. The carrying amount of derivative financial instruments was \$50,450 and \$2,911 at December 31, 1996 and 1995, respectively. The fair value of those instruments, based on quoted market prices, was \$17,450 and \$2,911 at December 31, 1996 and 1995, respectively. The carrying value of mortgage loans receivable approximates fair value based on discounted future cash flows.

The Company uses derivative financial instruments to manage its crude oil commodity price risk. They are not used for trading purposes. The Company has in recent years hedged 5% to 35% of its crude oil sales using various financial instruments including "put" and "call" options and, to a lesser extent, actual future contracts on crude oil and energy products that trade on the New York Mercantile Exchange ("NYMEX"). The variation in the types

of instruments employed results from a strategy designed to provide primarily short to intermediate term protection (less than one year) from oil price declines that would occur in a wide range. Generally, the Company does not hedge against narrow-range oil price movements. Since these financial instruments correlate to crude oil and energy products price movements, gains or losses resulting from market changes will be offset by losses or gains on the Company's crude oil sales. Included in oil and gas sales are losses from hedging activities totaling \$102,656, \$10,401 and \$3,243 for the years ended December 31, 1996, 1995 and 1994, respectively.

At December 31, 1996, the Company's hedging activities consisted of put options for futures contracts maturing through June 1997 covering 35,000 barrels of crude oil at prices ranging from \$20 to \$22 per barrel. Deferred net hedging losses amounted to \$33,000 at December 31, 1996.

K. FOURTH QUARTER ADJUSTMENTS:

During the fourth quarter of 1996, the Company made the determination to deduct for income tax purposes all intangible drilling costs incurred during 1996. Previously, these costs had been capitalized. As a result, deferred income tax liabilities increased \$160,000 and income tax expense increased \$91,569 over the amounts reported at September 30, 1996.

GEORESOURCES, INC., AND SUBSIDIARY
UNAUDITED SUPPLEMENTARY INFORMATION
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

Net capitalized costs related to the Company's oil and gas producing activities are summarized as follows as of December 31, 1996, 1995 and 1994:

	1996	1995	1994
Proved Properties	\$ 16,450,061	\$ 15,272,170	\$ 14,105,349
Unproved properties	18,199	88,759	134,330
Total	16,468,260	15,360,929	14,239,679
Less accumulated depreciation, depletion, amortization and impairment	(12,345,734)	(11,793,289)	(11,317,813)
Net capitalized costs	\$ 4,122,526	\$ 3,567,640	\$ 2,921,866

Costs incurred in oil and gas property acquisition, exploration and development activities, including capital expenditures are summarized as follows for the years ended December 31, 1996, 1995 and 1994:

	1996	1995	1994
Property acquisition costs:			
Proved	\$ 42,611	\$ 189,036	\$ 115,193
Unproved	21,027	15,479	40,786
Exploration costs	113,145	115,957	55,635
Development costs	980,059	841,921	423,300
	\$ 1,156,842	\$ 1,162,393	\$ 634,914

The Company's results of operations from oil and gas producing activities (excluding corporate overhead and financing costs) are presented below for the years ended December 31, 1996, 1995 and 1994.

	1996	1995	1994
Oil and gas sales	\$ 2,964,939	\$ 2,170,057	\$ 1,685,316
Production costs	(1,082,324)	(950,116)	(968,977)
Depletion, depreciation and amortization	(552,446)	(475,476)	(351,913)
	1,330,169	744,465	364,426
Imputed income tax provision	10,000	26,000	--
	\$ 1,320,169	\$ 718,465	\$ 364,426

GEORESOURCES, INC., AND SUBSIDIARY
UNAUDITED SUPPLEMENTARY INFORMATION
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

The reserve information presented below is based upon reports prepared by the independent petroleum engineering firm of Broschat Engineering and Management Services. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of mature producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate

with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions existing as of the end of each respective year. The year-end selling price of oil and gas is one of the primary factors affecting the determination of proved reserve quantities which fluctuate directly with that price.

Presented below is a summary of the changes in estimated proved reserves of the Company, all of which are located in the United States, for the years ended December 31, 1996, 1995 and 1994:

	1996		1995		1994	
	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)
Proved reserves, beginning of year	2,047,000	266,000	1,642,000	244,000	1,075,000	254,000
Purchases of reserves-in- place	21,000	--	67,000	--	69,000	--
Sales of reserves -in-place	--	--	--	--	(21,000)	--
Extensions and discoveries	12,000	3,000	5,000	1,000	317,000	2,000
Improved recovery	156,000	--	443,000	--	137,000	--
Revisions of previous estimates	85,000	5,000	42,000	34,000	204,000	(3,000)
Production	(167,000)	(13,000)	(152,000)	(13,000)	(139,000)	(9,000)
Proved reserves, end of year	2,154,000	261,000	2,047,000	266,000	1,642,000	244,000

GEORESOURCES, INC., AND SUBSIDIARY
UNAUDITED SUPPLEMENTARY INFORMATION
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

Proved developed oil and gas reserves are those expected to be recovered through existing wells with existing equipment and operating methods. Proved developed reserves of the Company are presented below as of December 31:

	Oil (bbl)	Gas (mcf)
1996	1,366,000	261,000
1995	1,292,000	266,000
1994	1,192,000	244,000

Statement of Financial Accounting Standards No. 69 prescribes guidelines for computing a standardized measure of future net cash flows and changes therein relating to estimated proved reserves. The Company has followed these guidelines which are briefly discussed below.

Future cash inflows and future production and development costs are determined by applying year-end selling prices and year-end production and development costs to the estimated quantities of oil and gas to be produced. The limitations inherent in the reserve quantity estimation process, as discussed previously, are equally applicable to the standardized measure computations since these estimates are the basis for the valuation process. Estimated future income taxes are computed using current statutory income tax rates including consideration for estimated future statutory depletion, depletion carryforwards, net operating loss carryforwards, and investment tax credit carryforwards. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

The assumptions used to compute the standardized measure are those prescribed by the Financial Accounting Standards Board and, as such, do not necessarily reflect the Company's expectations of actual revenues or future net cash flows to be derived from those reserves nor their present worth.

GEORESOURCES, INC., AND SUBSIDIARY
UNAUDITED SUPPLEMENTARY INFORMATION
DISCLOSURES ABOUT OIL AND GAS PRODUCING ACTIVITIES

Presented below is the standardized measure of discounted future net cash flows as of December 31, 1996, 1995 and 1994:

	1996	1995	1994
Future cash inflows	\$ 46,708,000	\$ 30,628,000	\$ 19,815,000
Future production costs	(17,419,000)	(13,369,000)	(9,732,000)
Future development costs	(3,078,000)	(2,993,000)	(1,439,000)
Future income tax expense	(7,385,000)	(3,423,000)	(1,450,000)
Future net cash flows	18,826,000	10,843,000	7,194,000

Less effect of a 10% discount factor	(7,380,000)	(4,381,000)	(2,914,000)
Standardized measure of discounted future net cash flows relating to proved reserves	\$ 11,446,000	\$ 6,462,000	\$ 4,280,000

The principal sources of change in the standardized measure of discounted future net cash flows are as follows for the years ended December 31, 1996, 1995 and 1994:

	1996	1995	1994
Standardized measure, beginning of year	\$ 6,462,000	\$ 4,280,000	\$ 2,368,000
Sales of oil and gas produced, net of production costs	(1,985,000)	(1,234,000)	(720,000)
Net changes in prices and production costs	6,452,000	2,256,000	1,384,000
Purchases of reserves-in-place	121,000	436,000	215,000
Sales of reserves-in-place	--	--	(75,000)
Extensions, discoveries and other additions, less related costs	1,369,000	2,203,000	1,624,000
Revisions of previous quantity estimates and other	1,209,000	599,000	946,000
Development costs incurred during the year and changes in estimated future development costs	(582,000)	(1,415,000)	(936,000)
Accretion of discount	850,000	514,000	246,000
Net change in income taxes	(2,450,000)	(1,177,000)	(772,000)
Standardized measure, end of year	\$ 11,446,000	\$ 6,462,000	\$ 4,280,000

Signatures

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GEORESOURCES, INC. (the "Registrant")

Dated: March 28, 1997

/s/ J. P. Vickers
J. P. Vickers, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints J. P. VICKERS and DENNIS HOFFELT his true and lawful attorneys-in-fact and agents, each acting alone, with full power of stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signatures	Title	Date
/s/ J. P. Vickers J. P. Vickers	President (principal executive officer and principal financial officer) and Director	3/28/97
/s/ Cathy Kruse Cathy Kruse	Secretary/Treasurer and Director	3/28/97
/s/ Dennis Hoffelt Dennis Hoffelt	Director	3/28/97
Joseph V. Montalban	Director	

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

GEORESOURCES, INC.
(Commission File Number: 0-8041)

EXHIBIT INDEX
FOR
Form 10-K for 1996 fiscal year.

Exhibit		Page Number in Sequential Numbering of all Form 10-K and Exhibit Pages
3.1	Registrant's Bylaws, as amended, November 30, 1994	*
3.2	Registrant's Articles of Incorporation, as amended to date, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K for fiscal year, 1983	*
10.1	Mining Lease and Agreement dated April 6, 1988, by and between Roger C. Ryan, Susan Ryan, Constance Ryan, Charlotte McConnell and Joseph W. Ryan as Lessors, and GeoResources, Inc. as Lessee incorporated by reference to Exhibit 10.4 of Registrant's Form 10-Q for fiscal quarter ended March 31, 1988	*
10.2	Credit Agreement dated January 24, 1989, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for fiscal year, 1988	*
10.3	Promissory Note dated January 24, 1989, by and between GeoResources, Inc., as Borrower and Norwest Bank Billings, incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-K for fiscal year, 1988	*
10.4	Combination Mortgage, Security Agreement and Fixture Financing Statement dated January 24, 1989, by and between GeoResources, Inc., as Mortgagor/Debtor and Norwest Bank Billings, as Mortgagee/Secured party, incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K for fiscal year, 1988	*
10.5	Mortgage, Security Agreement, Assignment of Production and Financing Statement dated January 24, 1989, by and between GeoResources, Inc., as Mortgagor/Debtor and Norwest Bank Billings, as Mortgagee/Secured party, incorporated by reference to Exhibit 10.28 of the Registrant's Form 10-K for fiscal year, 1988	*
10.6	Modification of Note of January 24, 1989, by and between Norwest Bank Billings and GeoResources, Inc., effective January 2, 1992, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended March 31, 1992	*
10.7	License Agreement dated March 22, 1993, by and between GeoResources, Inc. and Central Arizona Material Co., incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended March 31, 1993	*
10.8	Secured Form Loan and Revolving Credit Agreement dated April 29, 1993, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended June 30, 1993	*
10.9	Mortgage, Security Agreement, Assignment of Production and Financing Statement dated April 29,	

	1993, by and between GeoResources, Inc., as Mortgagor and Norwest Bank Billings, as Mortgagee, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q for fiscal quarter ended June 30, 1993	*
10.10	The Registrant's 1993 Employees' Incentive Stock Option Plan, incorporated by reference as Exhibit A to the Registrant's definitive Proxy Statement dated May 5, 1993	*
10.11	Amended and Restated Secured Term Loan and Revolving Credit Agreement made as of September 1, 1995, by and between GeoResources, Inc. and Norwest Bank Montana	*
10.12	First Amendment of Mortgage, Security Agreement, Assignment of Production and Financing Statement and Mortgage - Collateral Real Estate Mortgage dated September 1, 1995, by and between GeoResources, Inc. and Norwest Bank Montana	*
10.13	Commercial Installment Note with addendum dated February 1, 1997, by and between GeoResources, Inc. and Norwest Bank Billings	54
27	Financial Data Schedule	57

</TEXT>
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Borrower's name GeoResources, Inc. Date 02-01-1997
Promise to Pay: For value received, the undersigned Borrower promises to pay
to the order of Norwest Bank Montana, National Association (the "Bank") at
175 North 27th Street, Billings, MT 59117 or such other place
as the Bank or the holder of this promissory note (the "Note") may designate,
the principal sum of One Hundred Sixty-Six Thousand Ninety-Six and 60/100
Dollars (\$ 166,096.60), together with interest on the unpaid balance in
accordance with the repayment terms set forth below.

Interest: The Borrower will pay interest (calculated on the basis of actual
days elapsed in a 360 day year) on the unpaid principal balance at the
following rate (the "Note Rate"):

- ___ an annual rate of ___ %.
- an annual rate equal to 1.0000 % above the Base Rate, floating.
- ___ an annual rate which, for any month hereafter, shall be equal to
___ % the Base Rate in effect on the last day of the
preceding month, with an initial rate equal to ___%.
- ___ an annual rate ___.

If this ___ is checked and the Note Rate is variable, the Note Rate shall at
no time be less than an annual rate of ___%, and shall at no time exceed an
annual rate (if one is specified) of ___%. The interest rate on this Note
shall never exceed the maximum rate permitted by law.

"Base Rate" means the rate of interest established by Norwest Bank Minnesota,
National Association from time to time as its "Prime" rate. "Due Date" means
the maturity date on which all unpaid principal and interest is scheduled to
be repaid as stated in the Section entitled "Repayment Terms" or the date of
the acceleration of this Note, whichever is earlier.

Repayment Terms: Unless payable sooner as a result of its acceleration, the
Borrower shall pay this Note as follows:

___ Fixed Installments of Principal and Interest. Principal and interest
shall be paid together in ___ consecutive installments of \$ ___ each, ___
beginning ___, and on the same day of each ___ thereafter until ___,
___ plus irregular installments as follows:
\$ ___ on ___; \$ ___ on ___; and
\$ ___ on ___. On ___, the entire unpaid balance of principal and accrued
but unpaid interest shall be due and payable.

Each installment shall be applied first to accrued interest and the balance to
principal.

Fixed Principal Payments Plus Interest. Principal only shall be paid:

- in 21 consecutive installments of \$ 7,600.00 each, beginning
03-01-1997, and on the same day of each month thereafter until
11-01-1998, plus a final payment on 12-01-1998, when the entire
unpaid balance of principal shall become due and payable.
- ___ \$ ___ on ___; \$ ___ on ___;
- \$ ___ on ___; \$ ___ on ___;
- \$ ___ on ___; \$ ___ on ___;

and in addition, interest shall be payable Monthly, beginning
03-01-1997, and on the same day of each subsequent month.

Late Fee: ___ Each time that a scheduled payment is not paid when due or
within ___ days afterwards, the Borrower will pay a late fee equal to ___
\$ ___; ___ % of the full amount of the late payment; ___ the lesser of
\$ ___ or ___ % of the full amount of the late payment.

___ Additional Interest. Each time a scheduled payment is not paid when due
or within ___ days afterwards, the Borrower will pay additional interest
("Additional Interest") which will begin accruing on the next calendar day
on the entire unpaid principal balance at an annual rate of ___ % in excess
of the Note Rate. The Additional Interest will continue to accrue until all
past due payments and any Additional Interest are paid in full. Acceptance
by the Bank of any late fee or Additional Interest shall not constitute a
waiver of any default hereunder.

Prepayment: The Borrower may prepay this Note, at any time, in whole or in
part, ___ without penalty ___ provided that at the time of prepayment the
Borrower pays a prepayment penalty equal to ___ % of the principal amount
prepaid. Any partial payment shall be applied against the principal portion
of the installments due in inverse order of maturity.

Other Fees: If this is checked, the undersigned shall pay to the Bank a
nonrefundable: (Mark the applicable fee type(s))

- ___ commitment fee of (Choose one) ___ \$ ___ % of the Note
Amount
- facility fee of (Choose one) \$ 300.00 ___ % of the Note
Amount
- ___ documentation fee of (Choose one) ___ \$ ___ % of the
Note Amount
- ___ application and loan processing fee of (Choose one) ___ \$ ___
___ % of the Note Amount

"Note Amount" means the principal amount of this Note, at the time this Note is signed.

THE ATTACHED ADDENDUM IS INCORPORATED HEREIN AND MADE A PART HEREOF.

Additional Terms: The terms set forth on the reverse are incorporated into and made a part of this Note.

Loan Purpose: The Borrower certifies that the proceeds of this loan will be used for business or agricultural purposes.

Signatures

/s/ J.P. VICKERS Name and Title (If applicable) Jeffrey P Vickers, President	Name and Title (If applicable)
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Borrower's name
GeoResources, Inc.

Address
1407 W Dakota Parkway, Ste 1-B
City, State, Zip code
Williston, ND 58802

Name and Title (If applicable)

X This Note is given as a replacement for, and not in satisfaction of Note Number 88147, given by the Borrower and dated 01-24-1989.

Additional Terms

Default and Acceleration: Upon the occurrence of any one or more of the following events of default, or at any time thereafter unless such default is cured, the Bank may at its option declare all unpaid principal, accrued interest, fees and all other amounts payable under this Note to be immediately due and payable, without notice or demand to the Borrower:

- - Default by the Borrower in the payment when due of any principal, interest or other amounts due under this Note; or
- - The Borrower fails to perform or observe any term or covenant of this Note or any related documents or perform any other agreement with the Bank; or
- - The Borrower fails to perform or observe any agreement with any other creditor that relates to indebtedness or contingent liabilities which would allow the maturity of such indebtedness or obligation to be accelerated; or
- - The Borrower changes its legal form of organization; or
- - If the holder of this Note at any time, in good faith, believes that the undersigned will not be able to pay this Note when it is due; or
- - Any representation or warranty made by the Borrower in applying for this loan is untrue in any material respect; or
- - A garnishment, levy or writ of attachment, or any local, state or federal notice of tax lien or levy is served upon the Bank for the attachment of property of the Borrower in the Bank's possession or indebtedness owed to the Borrower by the Bank.

Automatic Acceleration: If, with or without the Borrower's consent, a custodian, trustee or receiver is appointed for any of the Borrower's properties, or if a petition is filed by or against the Borrower under the United States Bankruptcy Code, or if the Borrower is dissolved or liquidated (if an entity), or dies (if an individual), the unpaid principal, accrued interest and all other amounts payable under this Note will automatically become due and payable without notice or demand.

Waiver of Demand, Presentment, Notice of Dishonor and Protest: Each maker, accommodation party, endorser or guarantor of this Note, and any other party liable for its repayment, hereby severally waives demand, presentment, notice of dishonor and protest.

Amendment or Modification of Terms: Any amendment or modification of this Note must be in writing and signed by the party against whom enforcement of such amendment or modification is sought. The Bank may also change any of the repayment terms of this Note, including extensions of time and renewals, and release or add any party liable on this Note, or agree to the substitution or release of any security collateralizing this Note without notifying or releasing from liability any maker, accommodation party, endorser or guarantor. The Bank may suspend or waive any rights or remedies that it may have against any person who may be liable for its repayment.

No Waiver of Defaults or Remedies: No delay on the part of the Bank in the exercise of any right or remedy shall operate as a waiver thereof. No single or partial exercise by the Bank of any right or remedy shall preclude any further exercise of that or any other right or remedy, and no waiver or indulgence by the Bank of any default shall be effective unless in writing and signed by the Bank.

Subsequent Holders, Multiple Borrowers, and Governing Law: Any reference to the Bank in this Note shall be deemed to include any subsequent holder of this Note. The undersigned Borrower, if more than one, shall be jointly and severally liable hereunder and the term "Borrower" shall mean any one or more of them. This Note will be governed by the substantive laws of the state

where the Bank's principal office is located, and any mortgage securing this Note will be governed by the state where the real property subject to the Mortgage is located.

Attorneys' Fees: In the event the Bank is required to collect this Note following its Due Date or the bankruptcy of any maker hereof, the Borrower will pay to the Bank such further amounts as shall be sufficient to cover the costs and expenses incurred in collecting this Note and liquidating any security or guaranties given in support hereof, including reasonable attorneys' fees and expenses required to take such actions in any court, including any bankruptcy court.

Financial Reporting: While any amounts are due under this Note, the Borrower agrees to provide to the Bank annual financial statements and such other financial information as the Bank may request.

Arbitration

Agreement to Arbitrate: The Bank and Borrower agree to submit to binding arbitration all claims, disputes and controversies (whether in tort, contract, or otherwise, except "core proceedings" under the U.S. Bankruptcy Code) arising between themselves and their respective employees, officers, directors, attorneys and other agents, which relate in any way without limitation to this Note, including by way of example but not by way of limitation the negotiation, collateralization, administration, repayment, modification, default, termination and enforcement of the loans or credit evidenced by this Note.

Rules Governing Arbitration and Selection of Arbitrator: Arbitration under this Agreement will be governed by the Federal Arbitration Act and proceed in the city where the Bank's principal office is located, or such other location as the Bank and Borrower may agree in accordance with the American Arbitration Association's commercial arbitration rules ("AAA Rules"). Arbitration will be conducted before a single neutral arbitrator selected in accordance with AAA Rules and who shall be an attorney who has practiced commercial law for at least ten years.

Statutes of Limitation, Procedural Issues, Costs and Fees: The arbitrator will determine whether an issue is arbitratable and will give effect to applicable statutes of limitation. Judgment upon the arbitrator's award may be entered in any court having jurisdiction. The arbitrator has the discretion to decide, upon documents only or with a hearing, any motion to dismiss for failure to state a claim or any motion for summary judgment. The arbitrator will award costs and expenses in accordance with the provisions of this Note.

Discovery: Discovery will be governed by the rules of civil procedure in effect in the state where the Bank's principal office is located. Discovery must be completed at least 20 days before the hearing date and within 180 days of the commencement of arbitration. Each request for an extension and all other discovery disputes will be determined by the arbitrator upon a showing that the request is essential for the party's presentation and that no alternative means for obtaining information are available during the initial discovery period.

Exceptions to Arbitration: This Agreement does not limit the right of either party to a) foreclose against real or personal property collateral; b) exercise self-help remedies such as setoff or repossession; or c) obtain provisional remedies such as replevin, injunctive relief, attachment or the appointment of a receiver during the pendency or before or after any arbitration proceeding. These exceptions do not constitute a waiver of the right or obligation of either party to submit any dispute to arbitration, including those arising from the exercise of these remedies.

Page 2 of 2

ADDENDUM TO INSTALLMENT PROMMISSORY NOTE DATED FEBRUARY 1, 1997

So long as there remains an outstanding balance under this note, GeoResources, Inc. agrees to:

1. Provide the Bank with an audited financial statement within 120 days after the end of each fiscal year of GeoResources, Inc.
2. Provide the Bank with a copy of its 10Q report within 45 days after the end of each fiscal quarter.
3. Provide the Bank with such additional information as the Bank may from time to time reasonably request.
4. Maintain a Current Ratio at all times of not less than 1.25:1 and maintain at all times a Debt to Tangible Net Worth ratio of not more than 1.5:1 as those terms are defined in the Amended And Restated Secured Term Loan and Revolving Credit Agreement dated 09/01/95.

In addition to the above, GeoResources, Inc. agrees that, without the prior written consent of the Bank, it will not:

1. Change its name, its fiscal year, or the nature of its business.
2. Reorganize or liquidate or dissolve.
3. Enter into any merger or any consolidation in which it is not the surviving corporation.

GeoResources, Inc.

By: /s/ J. P. Vickers Its: President
Jeffrey P. Vickers

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