



FORM 10-K405

GEORESOURCES INC - GEOI

Exhibit:

Filed: March 31, 1999 (period: December 31, 1998)

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

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

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1998.
 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 19, 1999, was approximately \$2,310,914 (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 19, 1999: 4,071,652

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, 1998, the Registrant had developed oil and gas leases covering approximately 12,932 net acres in Montana and North Dakota, and during 1998 sold an average 478 net equivalent barrels of oil per day from 110 gross (77.78 net) productive 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 1998, 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 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 83% 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 3,988 gross acres (3,754 net) on a gas prospect located in the State of Washington. Activities in 1998 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 1999.

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 1999.

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 1998, Registrant sold its crude oil to 26 purchasers. Koch Oil Company was the major customer, accounting for approximately 77% of the Registrant's oil and gas revenue in 1998 or approximately 54% 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 1998, the Registrant sold leonardite products to 44 customers. The largest customer in 1998 for leonardite products made purchases totaling 26% of the Registrant's mining and manufacturing revenue or approximately 8% 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 levels experienced over the past several years. 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, 1999, 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 F 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
1998	7,772	\$ 92.47
1997	8,094	\$ 94.44
1996	8,909	\$ 94.49

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 17,760 gross (12,932 net) acres as of December 31, 1998, 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. (BOE)*	Average Oil Sales Price Per Bbl	Average Gas Sales Price Per MCF	Average Prod. Cost Per BOE**
1998	173,102	8,491	174,517	\$ 9.54	\$ 1.26	\$ 5.33
1997	211,266	10,408	213,001	\$16.15	\$ 1.30	\$ 6.27
1996	166,810	13,167	169,005	\$17.67	\$ 1.29	\$ 6.40

*Barrels of oil equivalent have been calculated on the basis of six thousand cubic feet (6 MCF) of natural gas equal to one barrel of oil equivalent (1 BOE).

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

Gross and Net Productive Wells: As of December 31, 1998, the Registrant's total gross and net productive wells were as follows:

Productive Wells*			
Oil		Gas	
Gross Wells	Net Wells	Gross Wells	Net Wells
110	77.78	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 December 31, 1998, 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	9,000	7,637	17,377	17,302	26,377	24,939
North Dakota	8,760	5,295	30,026	13,304	44,786	18,599
Washington	0	0	3,988	3,754	3,988	3,754
ALL STATES	17,760	12,932	57,391	34,360	75,151	47,292

*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	
1998	0.00	0.00	0.00	0.00	0.00
1997	0.00	0.02	1.67	0.00	1.69
1996	0.00	0.08	0.67	0.00	0.75

Present Activities: From January 1, 1999 to March 15, 1999, 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, 1998 have been filed with any federal authority or agency. Estimated total proved net oil and gas reserves will be filed with the Energy Information Administration of the Department of Energy (DOE) in April 1999 for reserves at year-end 1998. The difference between the oil and gas reserves reported in this Form 10-K and those to be filed with the DOE will not exceed 1%. Other than the estimates of reserves at December 31, 1997, 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 metal ore production was in 1989 under a lease arrangement. In 1999, the Registrant entered into a License Agreement with another company to allow commercial rock production from the patented claims. Under the terms of this agreement, the Registrant is to receive a 10% of gross selling price royalty on all rock products produced and sold from the property. The agreement also provides for a minimum royalty of \$250 per month to continue the agreement in effect through its three-year term ending January 15, 2002. No mining activities are presently being conducted on this property. Management has no plans to devote significant financial resources to this property in 1999; 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. 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 cannot predict the outcome of this action, although the Company intends to pursue its available remedies.

Other than the foregoing legal proceeding, 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 1998, 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 Stock 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 SmallCap Stock Market. These trade prices may represent prices between dealers and do not include retail markups, markdowns or commissions.

Calendar		Trade Price	
		Lowest	Highest
1997	1st Quarter	\$3.04	\$3.21
	2nd Quarter	\$2.83	\$2.98
	3rd Quarter	\$3.39	\$3.61
	4th Quarter	\$2.52	\$2.65

1998	1st Quarter	\$1.92	\$2.27
	2nd Quarter	\$1.69	\$2.02
	3rd Quarter	\$1.19	\$1.48
	4th Quarter	\$.83	\$1.15

As of March 15, 1999, 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 F to the Financial Statements for further information.

On January 28, 1999, the NASDAQ Stock Market ("NASDAQ") notified the Company that it was not in compliance with the \$1 minimum bid requirement, one of several listing requirements of the NASDAQ SmallCap Market. The Company is in compliance with the other requirements. If the Company is unable to meet compliance with the \$1 minimum bid requirement on or before April 28, 1999, the Company's common stock could be delisted from NASDAQ. To avoid delisting of its securities, the Company, in accordance with NASDAQ procedural guidelines, may request a hearing with NASDAQ before April 27, 1999, to seek a stay of delisting. The Company's management believes the Company should be granted a stay but it is unknown at this time whether NASDAQ would grant it. The Company will also continue to investigate any other options it might have to meet compliance with the minimum bid requirement.

ITEM 6. SELECTED FINANCIAL DATA

	1998	1997	1996	1995	1994
Operating Revenue	\$2,380,651	\$4,189,793	\$3,806,790	\$2,874,001	\$2,442,850
Net Income (Loss)	(1,605,218)	766,265	733,726	303,889	40,141
Net Income (Loss) Per Share	(.39)	.19	.18	.08	.01
AT YEAR END:					
Total Assets	6,704,724	8,032,328	7,909,965	6,690,285	5,796,354
Long-term Debt	1,625,004	666,000	998,097	958,330	787,035
Current Maturities	316,000	457,097	283,200	511,594	385,219
Working Capital (Deficit)	111,515	18,240	205,463	(171,949)	(86,786)
Stockholders' Equity	4,052,114	5,691,597	4,873,927	4,114,001	3,798,549

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

INTRODUCTION

The Company operates 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 1998 to 1997 Revenue and Gross Margin

Oil and gas sales were \$1,662,000 in 1998 compared to \$3,425,000 in 1997, a decrease of \$1,763,000 or 51%. This decrease in revenue was due to a 41% decrease in average oil prices and an 18% decline in the volume of oil and gas sold. The 1998 average oil price per barrel was \$9.54 compared to an average of \$16.15 in 1997. The Company periodically uses various New York Mercantile Exchange (NYMEX) crude oil and energy products contracts and options to hedge against the risks of oil price declines. See Note K to the Financial Statements for further information. The volume of oil and gas sold in 1998 decreased 38,000 barrels, or 18%, to 175,000 barrels of oil equivalent (BOE) from 213,000 BOE in 1997. The lower 1998 average oil price resulted from a collapse in world oil prices that occurred during 1998. The lower 1998 production volumes resulted from the Company "shutting in" or curtailing production from numerous marginal wells in an effort to control production costs. As of February 1, 1999, the Company had shut in a total of approximately 35 operated wells to reduce production costs.

Oil and gas production costs were \$930,000 in 1998 compared to \$1,336,000 in 1997, a decrease of \$406,000 or 30%. These lower costs were due to two primary factors, the efforts to reduce costs by shutting in marginal wells as discussed above and lower production taxes resulting from lower oil prices. Production costs expressed on a per equivalent barrel basis declined \$0.94 per BOE or 15% to average \$5.33 for 1998 compared to \$6.27 for 1997. The decrease in per barrel costs occurred because total production expenses declined by a higher percentage than the decline in the volume of oil and gas sales. Gross margin for 1998 oil and gas operations before deductions for depletion, a non-cash writedown of oil and gas properties and selling, general and administrative (SG&A) expenses decreased to \$732,000 or 44% of revenue compared to \$2,090,000 or 61% of revenue for 1997.

Leonardite product sales were \$719,000 in 1998 compared to \$764,000 in 1997, a decrease of \$46,000 or 6%. This decrease was due to a 4% decrease in tonnage sold in 1998 resulting from weaker demand for the Company's oil and gas related drilling products during 1998. Production sold in 1998 was 7,772 tons at an average price of \$92.47, compared to 8,094 tons at an average price of \$94.44 for 1997.

Cost of leonardite sold was \$603,000 in 1998 compared to \$598,000 in 1997, an increase of \$5,000 or 1%. Production costs per ton were \$77.61 and \$73.86 for 1998 and 1997, respectively. Costs per ton increased approximately 5% for 1998 compared to 1997 due in part to the lower production volumes that spread fixed costs over fewer tons.

Gross margin for 1998 leonardite operations before deductions for depreciation and selling, general and administrative expenses was \$115,000 or 16% of revenue compared to \$167,000 or 22% of revenue for 1997. The decline in 1998 gross margin resulted from the combination of the decline in leonardite sales and a slight increase in production costs previously discussed.

Comparison of 1998 to 1997 Consolidated Analysis

Total revenue for 1998 decreased \$1,809,000 or 43% to \$2,381,000 from \$4,190,000 in 1997. This decrease was primarily due to the substantially lower oil prices that existed during 1998 and, to a lesser extent, the lower oil production, both previously discussed.

Total operating costs for 1998 increased \$843,000 or 26% to \$4,076,000 compared to \$3,233,000 in 1997. These increased costs resulted entirely from a non-cash write-down of oil and gas properties charged to operating expenses in accordance with Securities and Exchange Commission (SEC) rules. Without the write-down, operating expenses in all the normal expense categories, except cost of leonardite sold, declined such that total operating expenses would have been \$2,776,000 for 1998 which was \$457,000 or 14% less than the \$3,233,000 for 1997. Normal operating expenses were lower due to the oil and gas cost cutting measures discussed above and to general efforts to reduce costs.

Lower 1998 total revenue and higher total operating costs resulted in an operating loss of \$1,696,000 for 1998 compared to operating

income of \$957,000 in 1997. Nonoperating expenses increased \$24,000 from \$80,000 in 1997 to \$105,000 in 1998, yielding a loss before taxes of \$1,800,000 in 1998 compared to a pretax income of \$876,000 in 1997.

The income tax benefit in 1998 was \$195,000 compared to a tax expense of \$110,000 in 1997. The 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 G to the Financial Statements for further information.

The net loss for 1998 was \$1,605,000 or \$.39 per share compared to net income of \$766,000 or \$.19 per share in 1997.

Comparison of 1997 to 1996 Revenue and Gross Margin

Oil and gas sales were \$3,425,000 in 1997 compared to \$2,965,000 in 1996, an increase of \$460,000 or 16%. This increase in revenue was due to a 9% decrease in average oil prices and a 26% increase in the volume of oil and gas sold. The 1997 average oil price per barrel was \$16.15 compared to an average of \$17.67 in 1996. The Company periodically uses various New York Mercantile Exchange (NYMEX) crude oil and energy products contracts and options to hedge against the risks of oil price declines. See Note K to the Financial Statements for further information. The volume of oil and gas sold in 1997 increased to 213,000 barrels of oil equivalent (BOE) from 169,000 BOE in 1996. The lower 1997 average oil price resulted from moderately lower world oil prices that existed during 1997. The higher 1997 production volumes resulted from production contributed by horizontal wells the Company has drilled in recent years. The horizontal well that had the largest impact on production in 1997 compared to 1996 was the Oscar Fossum H3 that began production in December 1996.

Oil and gas production costs were \$1,336,000 in 1997 compared to \$1,082,000 in 1996, an increase of \$254,000 or 23%. About two-thirds of the increase resulted from two factors, the first being the Company's increased workover activity in 1997, and the second, increased repairs and maintenance on the Company's oil and gas production facilities. For many years before the Company drilled its first horizontal well in 1995, cash flow was substantially lower, and therefore, non-essential repairs and maintenance of production equipment was often deferred in order to minimize production expense and conserve cash flow. During 1997, with substantially more cash flow available, the Company performed many repairs and maintenance on production equipment in an effort to improve their operating condition and efficiency. The remaining one-third of the increase in oil and gas production costs was due to smaller increases in many expense categories due to either increased costs of goods or the Company's increased production levels. For example, production taxes increased \$13,000 due to the higher oil sales, electrical power increased \$35,000 due to more wells using power and contract pumping services increased \$26,000 due to a rate increase and more wells. Even with these higher production costs, however, production costs expressed on a per-equivalent-barrel basis remained relatively stable, averaging \$6.27 for 1997 compared to \$6.40 for 1996. The stability in per barrel costs was due to increased production which spread the costs over more barrels. Gross margin for 1997 oil and gas operations before deductions for depletion and selling, general and administrative expenses increased to \$2,090,000 or 61% of revenue compared to \$1,883,000 or 63% of revenue for 1996. The stability in 1997 gross margin as a percentage of revenue was due to oil revenues increasing the same percentage as production costs.

Leonardite product sales were \$764,000 in 1997 compared to \$842,000 in 1996, a decrease of \$77,000 or 9%. This decrease was due to a 9% decrease in tonnage sold in 1997 resulting from weaker demand for the Company's products in the fourth quarter of 1997. Production sold in 1997 was 8,094 tons at an average price of \$94.44, compared to 8,909 tons at an average price of \$94.49 for 1996.

Cost of leonardite sold was \$598,000 in 1997 compared to \$667,000 in 1996, a decrease of \$70,000 or 10%. This decrease resulted from the 9% decrease in 1997 tonnage sold. Production costs per ton were \$73.86 and \$74.92 for 1997 and 1996, respectively. Costs per ton were essentially stable for 1997 compared to 1996 and varied only slightly due to the ratio of basic products and specialty products processed in 1997 and 1996.

Gross margin for 1997 leonardite operations before deductions for depreciation and selling, general and administrative expenses was \$167,000 or 22% of revenue compared to \$174,000 or 21% of revenue for 1996. The relative stability in 1997 gross margin resulted from relatively equal declines in leonardite production costs compared to leonardite sales.

Comparison of 1997 to 1996 Consolidated Analysis

Total revenue for 1997 increased \$383,000 or 10% to \$4,190,000 from \$3,807,000 in 1996. This increase was due to the higher oil and gas production previously discussed.

Total operating costs for 1997 increased \$310,000 or 11% to

\$3,233,000 compared to \$2,923,000 in 1996. These increased costs resulted from the higher oil and gas production costs previously discussed coupled with higher depreciation, depletion and amortization (DD&A) expenses. DD&A expenses were higher due to higher oil production levels that increased the oil depletion expense portion of DD&A.

Higher 1997 total revenue, and to a lesser extent higher total operating costs, resulted in operating income of \$957,000 for 1997 compared to \$883,000 in 1996. Nonoperating expenses increased \$16,000 from \$64,000 in 1996 to \$80,000 in 1997, yielding an income before taxes of \$876,000 in 1997 compared to \$819,000 in 1996.

Income tax expense in 1997 was \$110,000 compared to \$86,000 in 1996. 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 G to the Financial Statements for further information.

Net income for 1997 was \$766,000 or 19 cents per share compared to a net income of \$734,000 or 18 cents per share in 1996.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, the Company had current assets of \$999,000 compared to current liabilities of \$888,000 for a current ratio of 1.13 to 1 and working capital of \$112,000. This compares to a current ratio of 1.01 to 1 at December 31, 1997, and working capital of \$18,000. Cash was significantly lower at year-end 1998, as a result of the Company using cash to reduce accounts payable from the prior year's level. Current liabilities also declined because less of the Company's debt was scheduled to mature in 1998 and 1999. See Note F to the Financial Statements for further information. Working capital at year-end 1998 was higher than year-end 1997 because current liabilities were reduced more than current assets. This was due to the lower current maturities discussed above and to higher inventories resulting from the Company holding oil in lease tanks awaiting higher oil prices.

During the year ended December 31, 1998, the Company generated cash flows from operating activities of \$124,000 which was \$2,104,000 less than the amount generated during 1997. This decrease was essentially due to substantially lower oil prices that existed in 1998. The Company anticipates that cash flows from operations and funds available under a \$3,000,000 revolving line of credit will be sufficient to meet its short-term cash requirements. It allows borrowings until January 5, 2001, with repayment of any amounts borrowed to begin by that date. The Company can select a repayment schedule of up to a maximum of 48 months.

During 1998, the Company's investing activities used \$1,287,000 of cash which was primarily for additions to property, plant and equipment related to the drilling and completion of the Oscar Fossum H4 horizontal well in early 1998 and proved property acquisitions during 1998. The additions to property and equipment consists of the approximate amounts as follows: Exploration and development costs of \$884,000 that included the paid portion of costs for drilling and completing the Oscar Fossum H4 in early 1998, proved property acquisition costs of \$236,000 associated with acquiring interests in thirteen producing wells in two separate acquisitions, unproved property costs of \$38,000 primarily for oil and gas lease costs.

During 1998, the Company's financing activities consisted of proceeds from borrowings of \$1,275,000 and \$457,000 of cash utilized for regularly scheduled principal payments under long-term debt agreements. In addition the Company used \$96,000 of cash to purchase its own stock on the open market.

Management estimates that the Company's development costs for 1999 related to the Company's proved developed nonproducing and proved undeveloped oil and gas properties will be substantially less than the \$1,000,000 or more that they have been in recent years. Planned expenditures for 1999 consist of delay rentals and other exploration costs of approximately \$100,000. Capital expected to be used for 1999 principal payments required under existing debt agreements totals \$316,000. The estimated amounts for exploration and development are uncertain because of the extremely low oil prices that have existed throughout 1998 and the first quarter of 1999. During March 1999, crude oil prices on the NYMEX recovered modestly. Dramatic fluctuations in world oil prices can occur as a result of the market's perception of what major oil producing countries will do to control oil supplies. The price the Company receives for its oil production is tied directly to world oil markets, and lower prices result in reduced cash flow. The Company budgets and estimates its capital expenditures, but these estimates can change, either upward or downward, quickly with the effects oil prices have on cash flow.

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 future cash flows from operations, and if necessary, possible forward sales of oil reserves or additional debt or equity financing.

YEAR 2000 READINESS

The Company expects to complete the review, resolution and testing of all its internal computer systems prior to December 31, 1999, so that it is Year 2000 compliant. Essentially all of the Company's office computer systems are desktop computers, including its complete accounting system. The maker of the Company's accounting software has represented that it has run a 2000 compliant version in house for over a year, and the Company expects to upgrade to that version before August 31, 1999. All other office desktop systems are either already Year 2000 compliant or will be upgraded before December 31, 1999. The Company does not expect that the cost of upgrading any of its computer systems will have a material impact on the Company's financial position, results of operations or cash flows in future periods. The Company's oil and gas production operations equipment and its leonardite processing operations equipment are both not dependent on any material amount of in house computerized controls or embedded chip devices and as such are not deemed to be affected by Year 2000 compliance issues. Both of these operational segments are, however, significantly dependent on the Year 2000 readiness of their respective customers and on supplies provided by third parties, particularly for energy in the form of electricity and natural gas. The Company cannot guarantee that there will not be material adverse effects to the Company if customers or utilities and other of the Company's suppliers have difficulties related to Year 2000 readiness. The Company believes the availability of supplies and services from third parties to be the most significant risk related to the Year 2000 issue.

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: 46	President and Director	Since 1982
Thomas F. Neubauer Age: 64	Vice President of Leonardite Operations	Since June 1992
Cathy Kruse Age: 44	Secretary, Treasurer and Director	Since October 1981; October 1981 to May 1985 and since June 1990; since June 1996
H. Dennis Hoffelt Age: 58	Director	From 1967 through June 1986; and since June 1987
Joseph V. Montalban Age: 75	Director	Since June 1996
Paul A. Krile Age: 71	Director	Since June 1997

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.

Paul A. Krile has been a director of the Company since June 1997. He has been the President and owner of Ranco Fertiliservice, a manufacturer of dry fertilizer handling equipment, headquartered in Sioux Rapids, Iowa for more than the last five years.

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 for 1998, 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. The Company does not have an employment contract with any of its executive officers. 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		Long Term Compensation Awards			Payouts		All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation	Restricted Stock Award(s) (\$)	Securities Underlying Options SARs (#)	LTIP Payouts (\$)		
Jeffrey P. Vickers CEO	1998	\$82,596	-0-	-0-	N/A	-0-	N/A	\$4,130	
	1997	\$82,596	25,000	-0-	N/A	71,000	N/A	\$8,747	
	1996	\$78,443	-0-	-0-	N/A	-0-	N/A	\$11,766	

In the table above, the column titled "All Other Compensation" is comprised entirely of profit sharing amounts and the 401(k) Company matching funds discussed below.

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 Profit Sharing 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 did not make a contribution in 1998. Contributions for 1997 and 1996 were \$21,508 and \$60,000, respectively. As of December 31, 1998, vested amounts in the Profit Sharing Plan for all officers as a group were approximately \$418,500.

Effective July 1, 1997, the Company executed an Adoption Agreement Nonstandardized Code 401(k) Profit Sharing Plan that includes a 401(k) Plan into the existing Profit Sharing Plan. Eligible employees are allowed to defer up to 15% of their compensation with the Company matching up to 5%.

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

Name	Shares Acquired on Exercise (#)	Value Realized(\$)	Number of Unexercised Options/SARs at FY-End(#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at FY-End(\$) Exercisable/ Unexercisable
Jeffrey P. Vickers, CEO	-0-	-0-	106,000/0	0/0

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 Company 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 Company largely depends, by encouraging such persons to become owners of the common stock of the Company.

The term of the Plan expires February 17, 2003. 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 Company 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 Company. 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, options have been issued for 295,000 shares 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 Jeffrey P. Vickers and Cathy Kruse, were paid \$200 per month for Board meetings in 1998.

ITEM 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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, 1999. 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	374,934-Direct and Indirect (a)	9.2%
Common Stock, \$.01 par value	Paul A. Krile	207,500-Direct (b)	5.1%

Common Stock, \$.01 par value	Cathy Kruse	14,700-Direct (d)	(c)
Common Stock, \$.01 par value	Thomas F. Neubauer	20,500-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	463,800-Direct (g)	11.4%
Common Stock, \$.01 par value	Officers and Directors as a Group- (six persons)	1,120,434-Direct and Indirect (a) (b) (c) (d) (e) (f) (g)	27.5%

- (a) Included in the 374,934 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 106,000 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 14,700 are 14,500 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 20,500 are 9,500 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, 1999.

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	463,800-Direct (a)	11.4%
Common Stock, \$.01 par value	Jeffrey P. Vickers 1814 14th Ave. W. Williston, ND 58801	374,934-Direct and Indirect (b)	9.2%
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.

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 52.

(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

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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, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1998, 1997 and 1996. 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, 1998 and 1997, and the results of its operations and its cash flows for the years ended December 31, 1998, 1997 and 1996, in conformity with generally accepted accounting principles.

/s/ Richey, May & Co., P. C.

Englewood, Colorado
March 4, 1999

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

ASSETS		
CURRENT ASSETS:	1998	1997
Cash and equivalents	\$ 40,673	\$ 490,385
Trade receivables, net	524,132	521,934
Inventories	403,529	288,264
Prepaid expenses	26,468	31,422
Investments	4,319	25,966
Total current assets	999,121	1,357,971
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Oil and gas properties, using the full cost method of accounting:		
Properties being amortized	19,139,363	17,997,596
Properties not subject to amortization	141,019	124,672
Leonardite plant and equipment	3,206,217	3,211,825
Other	704,357	702,068
	23,190,956	22,036,161
Less accumulated depreciation, depletion, amortization and impairment	(17,635,373)	(15,510,109)
Net property, plant and equipment	5,555,583	6,526,052
OTHER ASSETS:		
Mortgage loans receivable, related party	103,321	103,321
Other	46,699	44,984
Total other assets	150,020	148,305
TOTAL ASSETS:	\$ 6,704,724	\$ 8,032,328
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 472,345	\$ 770,204
Current maturities of long-term debt	316,000	457,097
Accrued expenses	99,261	112,430
Total current liabilities	887,606	1,339,731
LONG-TERM DEBT, less current maturities:	1,625,004	666,000
DEFERRED INCOME TAXES:	140,000	335,000
CONTINGENCIES (NOTE I):		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued and outstanding, 4,071,652 and 4,097,214 shares, respectively	40,717	40,972
Additional paid-in capital	846,787	880,797
Retained earnings	3,164,610	4,769,828
Total stockholders' equity	4,052,114	5,691,597
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY:	\$ 6,704,724	\$ 8,032,328

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
OPERATING REVENUE:			
Oil and gas sales	\$ 1,661,977	\$ 3,425,395	\$ 2,964,939
Leonardite sales	718,674	764,398	841,851
	2,380,651	4,189,793	3,806,790
OPERATING COSTS AND EXPENSES:			
Oil and gas production	929,560	1,335,605	1,082,324
Cost of leonardite sold	603,208	597,813	667,437
Depreciation, depletion and amortization	830,871	850,599	674,805
Write-down of oil and gas properties	1,300,000	--	--
Selling, general and administrative	412,729	449,161	498,882
	4,076,368	3,233,178	2,923,448
Operating income (loss)	(1,695,717)	956,615	883,342
OTHER INCOME (EXPENSE):			
Interest expense	(143,588)	(125,007)	(113,384)
Interest income	17,231	25,036	18,287
Other income and losses, net	21,856	19,621	31,050
	(104,501)	(80,350)	(64,047)
Income (loss) before income taxes	(1,800,218)	876,265	819,295
INCOME TAX (EXPENSE) BENEFIT:	195,000	(110,000)	(85,569)
Net income (loss)	\$(1,605,218)	\$ 766,265	\$ 733,726
EARNINGS PER SHARE:			
Net income (loss), basic and diluted	\$ (.39)	\$.19	\$.18
Weighted average number of shares outstanding	4,080,092	4,076,284	4,056,274
Dilutive potential shares - Stock options	--	63,361	38,686
Adjusted weighted average shares	4,080,092	4,139,645	4,094,960

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
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
Issuance of common stock as compensation	20,000	200	30,400	--	30,600
Stock options exercised	16,500	165	20,640	--	20,805
Net income	--	--	--	766,265	766,265
Balance, December 31, 1997	4,097,214	40,972	880,797	4,769,828	5,691,597
Purchase of common stock	(56,562)	(565)	(95,351)	--	(95,916)

Source: GEORESOURCES INC, 10-K405, March 31, 1999

Issuance of common stock for acquisition of oil and gas properties	31,000	310	61,341	--	61,651
Net income (loss)	--	--	--	(1,605,218)	(1,605,218)
Balance, December 31, 1998	4,071,652	\$ 40,717	\$ 846,787	\$3,164,610	\$4,052,114

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES;			
Net income (loss)	\$ (1,605,218)	\$ 766,265	\$ 733,726
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion, amortization and valuation allowance	2,130,871	850,599	674,805
Deferred income taxes (benefit)	(195,000)	110,000	74,000
Issuance of common stock as compensation	--	--	26,200
Other	7,192	2,364	2,192
Changes in assets and liabilities:			
Decrease (increase) in:			
Trade receivables	(2,198)	414,111	(345,715)
Inventories	(115,265)	(36,765)	33,519
Prepaid expenses and other	4,954	(13,221)	(741)
Investments	21,647	31,805	(47,652)
Increase (decrease) in:			
Accounts payable	(109,569)	145,629	(87,604)
Accrued expenses	(13,169)	(43,034)	87,527
Net cash provided by operating activities	124,245	2,227,753	1,150,257
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property, plant and equipment	(1,287,321)	(2,707,097)	(583,128)
Proceeds from sale of property and equipment	--	357,236	--
Other	--	--	(12,756)
Net cash used in investing activities	(1,287,321)	(2,349,861)	(595,884)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term borrowings	1,275,000	425,000	325,000
Principal payments on long-term debt	(457,093)	(583,200)	(513,627)
Proceeds from issuance of common stock	--	20,805	--
Cost to purchase common stock	(95,916)	--	--
Debt issue costs	(8,627)	(5,000)	(2,936)
Net cash provided by (used in) financing activities	713,364	(142,395)	(191,563)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS:	(449,712)	(264,503)	362,810
CASH AND EQUIVALENTS, beginning of year:	490,385	754,888	392,078
CASH AND EQUIVALENTS, end of year:	\$ 40,673	\$ 490,385	\$ 754,888

GEORESOURCES, INC., AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for:			
Interest	\$ 138,791	\$ 124,245	\$ 114,850
Income taxes	14,573	9,922	1,569

NONCASH INVESTING AND FINANCING ACTIVITIES

During 1998, the Company issued 31,000 shares of common stock valued at \$61,651 as partial consideration of the purchase price of various oil and gas properties.

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 83% 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 affects 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 \$3.86, \$3.40 and \$3.27 for 1998, 1997 and 1996, 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. During 1998, the selling prices of the Company's oil and gas products declined significantly, reaching their lowest point of the year in mid December with only a small increase through December 31, 1998, and some additional increase after year-end. In consideration of the price increase subsequent to year-end, the Company computed the "ceiling test" using prices in effect on March 4, 1999. As a result, the net capitalized costs of the Company's oil and gas properties exceeded their "estimated present value" based upon the "ceiling" limitation and consequently, the Company recognized a charge to operations of \$1,300,000 or \$0.32 per share. Had the Company determined the "ceiling" limitation using year-end prices, it would have recognized an additional charge to operations of approximately \$900,000 or \$0.22 per share.

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, 1998, consist of the unevaluated, unimpaired cost of undeveloped oil and gas properties which were acquired during the following years:

1998	\$ 21,168
1997	32,859
1996	16,258
1995 and prior	70,734
Total	\$ 141,019

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, 1998, 1997 and 1996.

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.

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.

Earnings Per Share of Common Stock

Earnings per share has been computed based on the adjusted weighted average number of common shares outstanding. The effect of outstanding stock options was antidilutive in 1998.

Recently Issued Accounting Standards

In 1998, the FASB issued SFAS No. 133-Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes standards for the accounting and reporting of all derivative instruments at their fair value as assets or liabilities on the balance sheet. SFAS No. 133 is effective for periods beginning after June 15, 1999 and requires restatement of information presented for prior periods. The adoption of SFAS No. 133 will not have a material impact on these financial statements.

B. INDUSTRY SEGMENTS AND MAJOR CUSTOMER:

Segment information

The Company assesses performance and allocates resources based upon its products and the nature of its production processes, 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 operating segments and all operations are conducted within the United States. Certain corporate costs, assets and capital expenditures that are considered to benefit the entire organization are not allocated to the Company's operating segments. Interest income, interest expense and income taxes are also not allocated to operating segments. There are no significant accounting differences between internal segment reporting and consolidated external reporting. Presented below is information concerning the Company's operating segments for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Revenue:			
Oil and gas	\$ 1,661,977	\$ 3,425,395	\$ 2,964,939
Leonardite	718,674	764,398	841,851
	\$ 2,380,651	\$ 4,189,793	\$ 3,806,790
Operating income (loss):			
Oil and gas	\$ (1,279,105)	\$ 1,365,729	\$ 1,330,169
Leonardite	(8,975)	33,859	40,737
General corporate activities	(407,637)	(442,973)	(487,564)
	\$ (1,695,717)	\$ 956,615	\$ 883,342
Depreciation and depletion:			
Oil and gas	\$ 711,522	\$ 724,061	\$ 552,446
Leonardite	101,468	108,903	107,087
General corporate activities	17,881	17,635	15,272
	\$ 830,871	\$ 850,599	\$ 674,805
Identifiable assets, net:			
Oil and gas	\$ 4,702,417	\$ 5,452,759	\$ 5,014,782
Leonardite	1,347,521	1,452,847	1,501,054
General corporate activities	654,786	1,126,722	1,394,129
	\$ 6,704,724	\$ 8,032,328	\$ 7,909,965
Capital expenditures incurred:			
Oil and gas	\$ 1,158,211	\$ 1,920,470	\$ 1,156,842
Leonardite	--	43,498	29,160
General corporate activities	2,289	9,927	21,095
	\$ 1,160,500	\$ 1,973,895	\$ 1,207,097

Major Customer

Sales to a major oil and gas customer were 54%, 71% and 65% of total revenue for the years ended December 31, 1998, 1997 and 1996, respectively. Accounts receivable from this major customer were 36% and 44% of total accounts receivable at December 31, 1998 and 1997,

respectively.

C. TRADE RECEIVABLES AND INVENTORIES:

Trade receivables at December 31, 1998 and 1997 are comprised of the following:

	1998	1997
Oil and gas purchasers	\$ 353,607	\$ 318,096
Leonardite customers	181,941	215,254
	535,548	533,350
Less allowance for doubtful accounts	(11,416)	(11,416)
	\$ 524,132	\$ 521,934

As of December 31, 1998 and 1997, inventories by major classes are comprised of the following:

	1998	1997
Crude oil	\$ 114,464	\$ 29,550
Leonardite inventories:		
Finished products	108,951	90,302
Raw materials	90,167	85,433
Materials and supplies	89,947	82,979
Total leonardite inventories	289,065	258,714
	\$ 403,529	\$ 288,264

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, 2002. The Company received interest income from these loans of \$8,100 for each of the years ended December 31, 1998, 1997 and 1996.

E. VOLUMETRIC PRODUCTION PAYMENT

On December 3, 1997, the Company conveyed to Koch Producer Services, Inc., a volumetric production payment of 27,375 barrels of crude oil produced from a specified property through November 1998. The gross proceeds of this sale totaled \$364,550 and were credited on the accompanying balance sheet to oil and gas properties being amortized. No gain or loss was recognized on the sale.

F. LONG-TERM DEBT:

Long-term debt at December 31, 1998 and 1997 consists of the following loans and a revolving line of credit (RLOC) which are all with one bank:

	1998	1997
The 1989 Leonardite Loan, prime plus 1% (9.5% total rate at December 31, 1997), due in monthly installments of \$7,600 plus interest, due December 1998, unsecured	\$ --	\$ 90,097
The 1993 Oil & Gas Loan, prime plus 1% (8.75% total rate at December 31, 1998), due in monthly installments of \$16,000 plus interest, due September 1999, collateralized by oil and gas properties	141,000	333,000
The 1995 Oil & Gas Loan, prime plus 1% (8.75% total rate at December 31, 1998), due in monthly installments of \$14,583 plus interest, due December 2001, collateralized by oil and gas properties	525,004	700,000
The 1997 Oil & Gas RLOC, \$3,000,000 revolving line of credit, interest payable monthly at prime plus .75%, (8.5% total rate at December 31, 1998), expires January 5, 2005, collateralized by oil and gas properties	1,275,000	--
Total long-term debt	1,941,004	1,123,097
Less current maturities	(316,000)	(457,097)
Long-term debt, less current		

maturities	\$ 1,625,004	\$ 666,000
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Aggregate maturities required on long-term debt at December 31, 1998, are as follows:

Year Ending December 31:	
1999	\$ 316,000
2000	175,000
2001	493,754
2002	318,750
2003	318,750
Thereafter	318,750
	\$ 1,941,004

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; not encumber certain 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.

G. INCOME TAXES:

The components of income tax expense for the years ended December 31, 1998, 1997 and 1996, are as follows:

	1998	1997	1996
Current tax (expense)	\$ --	\$ --	\$ (11,569)
Deferred tax benefit (expense)	685,000	(369,000)	(232,000)
Decrease (increase) in deferred tax assets valuation allowance	(490,000)	259,000	158,000
Income tax (expense) benefit	\$ 195,000	\$ (110,000)	\$ (85,569)

During 1998, the Company recorded a deferred tax benefit of \$685,000. This resulted from a) the reversal of temporary differences related to oil and gas properties caused by the \$1,300,000 write-down discussed in Note A, and b) the additional net loss incurred for which there are no currently refundable taxes. The Company also increased the deferred tax asset valuation allowance by \$490,000 based upon the projection of utilizing less statutory depletion carryforwards in the future.

During 1997 and 1996, the Company recorded deferred tax expense of \$369,000 and \$232,000, respectively. This related primarily to net income which was not currently taxable due to the deduction of intangible drilling costs for tax purposes. The Company also decreased the deferred tax asset valuation allowance by \$259,000 and \$158,000 during 1997 and 1996, 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, 1998 and 1997, are as follows:

	1998	1997
Deferred Tax Assets:		
Net operating loss carryforward	\$ 454,000	\$ 390,000
Statutory depletion carryforward	1,252,000	1,113,000
Tax credit carryforwards	55,000	69,000
Other	46,000	47,000
	1,807,000	1,619,000
Valuation Allowance:		
Beginning of year	(492,000)	(751,000)
(Increase) decrease	(490,000)	259,000
End of year	(982,000)	(492,000)
Deferred Tax Liabilities:		
Accumulated depreciation and depletion	(965,000)	(1,462,000)
Net Deferred Tax Liability, long-term	\$ (140,000)	\$ (335,000)

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, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
Income tax expense (benefit)			

at statutory rate	(35)%	35%	35%
Change in valuation allowance	27	(30)	(20)
Graduated tax rate difference	--	--	(13)
State income taxes and other	(3)	8	8
	(11)%	13%	10%

For income tax purposes, the Company has a statutory depletion carryover of approximately \$3,495,000 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
1999-2000	\$ --	\$ 31,000
2001	412,000	--
2003	102,000	--
2008	115,000	--
2009	237,000	--
2012	342,000	--
2013	61,000	--
Total	\$ 1,269,000	\$ 31,000

H. 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.

Information with respect to the stock option plan's activity is as follows:

	Shares Available for Options	Shares Subject to Outstanding Options
December 31, 1995	205,000	95,000
Grants	--	--
Exercises	--	--
December 31, 1996	205,000	95,000
Grants	(200,000)	200,000
Exercises	--	(16,500)
December 31, 1997	5,000	278,500
Grants	--	--
Exercises	--	--
December 31, 1998	5,000	278,500

Information with respect to the options outstanding and exercisable at December 31, 1998 and 1997, is as follows:

Number of shares	Exercise Price	Expiration Date
80,000	\$1.15	November 2000
101,000	2.37	May 2002
97,500	2.31	December 2002
278,500		

As permitted by SFAS No. 123, Accounting for Stock-Based Compensation, the Company continues to apply the provisions of APB Opinion 25 in accounting for its plan. Accordingly, no compensation cost was recognized for options granted. Had stock-based compensation cost been determined based upon the fair value of the options estimated on the date of grant the Company's 1997 net income and earnings per share would have been reduced to pro forma amounts of \$598,065 and \$.15, respectively. The fair value of the 1997 options on the date of grant is estimated using the Black-Scholes option-pricing model with the following assumptions:

Expected volatility	39%
Risk free interest rate	5.71%
Expected lives	3.5 years

Expected dividends None

Profit-sharing plan

The Company has a 401(k) profit sharing plan that covers all employees with one year of service who elect to enter the plan. Effective July 1, 1997, the Company amended the plan to provide for employee contributions. Employees may elect to contribute up to 15% of their compensation to a maximum of \$10,000. The Company contributes an amount equal to each employee's contribution up to a maximum of 5% of the employee's compensation. The Company may also make additional discretionary contributions to the plan. Prior to 1997, contributions to the plan were at the discretion of the Board of Directors. The Company's contributions to the plan for the years ended December 31, 1998, 1997 and 1996 were \$19,883, \$31,930 and \$60,000, respectively.

I. 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.

J. 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, 1998 and 1997:

	1998	1997
Building and improvements	\$ 163,834	\$ 163,834
Accumulated depreciation	(63,754)	(55,563)
	\$ 100,080	\$ 108,271

The Company leases the remainder of the building to unaffiliated businesses under cancelable lease agreements. During 1998, 1997 and 1996, the Company received \$21,300, \$22,200 and \$20,938, respectively, in rental income from the building which is included in other income in the accompanying statements of operations.

K. 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 none and \$6,007 at December 31, 1998 and 1997, respectively. The fair value of those instruments, based on quoted market prices, was none and (\$4,291) at December 31, 1998 and 1997, 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 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 \$37,849, \$30,269 and \$102,656 for the years ended December 31, 1998, 1997 and 1996, respectively.

At December 31, 1998, the Company had no derivative financial instruments.

At December 31, 1997, the notional principal amount of outstanding call options was \$15,800 and the principal amount of outstanding forward contracts was \$318,980. Deferred net hedging losses amounted to \$11,098 at December 31, 1997.

L. FOURTH QUARTER ADJUSTMENTS:

As discussed in Note A, the Company recorded a write-down of its oil and gas properties of \$1,300,000 during the fourth quarter of 1998 as a result of significantly lower oil prices at that time.

During the fourth quarter of 1998, deferred income tax liabilities decreased \$185,000 and income tax benefit increased \$185,000 over the amounts reported at September 30, 1998, due to the write-down discussed above and the operating loss incurred.

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, 1998, 1997 and 1996:

	1998	1997	1996
Proved Properties	\$19,139,363	\$17,997,596	\$16,450,061
Unproved properties	141,019	124,672	93,640
Total	19,280,382	18,122,268	16,543,701
Less accumulated depreciation, depletion, amortization and impairment	(15,081,319)	(13,069,796)	(12,345,734)
Net capitalized costs	\$ 4,199,063	\$ 5,052,472	\$ 4,197,967

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, 1998, 1997 and 1996:

	1998	1997	1996
Property acquisition costs:			
Proved	\$ 236,058	\$ 28,420	\$ 42,611
Unproved	37,756	55,230	21,027
Exploration costs	68,365	75,765	113,145
Development costs	816,032	1,761,055	980,059
	\$ 1,158,211	\$ 1,920,470	\$ 1,156,842

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, 1998, 1997 and 1996.

	1998	1997	1996
Oil and gas sales	\$ 1,661,977	\$ 3,425,395	\$ 2,964,939
Production costs	(929,560)	(1,335,605)	(1,082,324)
Depletion, depreciation and amortization	(711,522)	(724,061)	(552,446)
	20,895	1,365,729	1,330,169
Imputed income tax provision	--	--	10,000
	\$ 20,895	\$ 1,365,729	\$ 1,320,169

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. The selling price of oil was significantly lower at December 31, 1998, than at December 31, 1997 or 1996.

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, 1998, 1997 and 1996:

	1998		1997		1996	
	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)
Proved reserves, beginning of year	2,387,000	253,000	2,154,000	261,000	2,047,000	266,000
Purchases of reserves-in- place	78,000	--	1,000	--	21,000	--
Sales of reserves -in-place	--	--	(25,000)	--	--	--
Extensions and discoveries	--	--	201,000	1,000	12,000	3,000
Improved recovery	124,000	--	350,000	--	156,000	--
Revisions of previous estimates	(1,130,000)	(10,000)	(83,000)	1,000	85,000	5,000
Production	(173,000)	(9,000)	(211,000)	(10,000)	(167,000)	(13,000)
Proved reserves, end of year	1,286,000	234,000	2,387,000	253,000	2,154,000	261,000

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)
1998	1,286,000	234,000
1997	1,640,000	253,000
1996	1,366,000	261,000

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.

As shown on the next page, the future cash inflows as of December 31, 1998, are significantly lower than in the prior years. This is primarily due to the low oil price in effect on December 31, 1998. Future cash inflows will change as oil and gas selling prices either increase or decrease from their level on December 31, 1998.

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, 1998, 1997 and 1996:

	1998	1997	1996
Future cash inflows	\$11,274,000	\$33,521,000	\$46,708,000
Future production costs	(6,141,000)	(13,602,000)	(17,419,000)
Future development costs	(242,000)	(3,495,000)	(3,078,000)
Future income tax expense	(241,000)	(5,318,000)	(7,385,000)

Future net cash flows	4,650,000	11,106,000	18,826,000
Less effect of a 10% discount factor	(1,814,000)	(4,587,000)	(7,380,000)
Standardized measure of discounted future net cash flows relating to proved reserves	\$ 2,836,000	\$ 6,519,000	\$11,446,000

The principal sources of change in the standardized measure of discounted future net cash flows are as follows for the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Standardized measure, beginning of year	\$ 6,519,000	\$11,446,000	\$ 6,462,000
Sales of oil and gas produced, net of production costs	(732,000)	(2,090,000)	(1,985,000)
Net changes in prices and production costs	(8,027,000)	(6,612,000)	6,452,000
Purchases of reserves-in-place	134,000	1,000	121,000
Sales of reserves-in-place	--	(120,000)	--
Extensions, discoveries and other additions, less related costs	295,000	2,654,000	1,369,000
Revisions of previous quantity estimates and other	(3,054,000)	(713,000)	1,209,000
Development costs incurred during the year and changes in estimated future development costs	2,375,000	(1,011,000)	(582,000)
Accretion of discount	983,000	1,595,000	850,000
Net change in income taxes	4,343,000	1,369,000	(2,450,000)
Standardized measure, end of year	\$ 2,836,000	\$ 6,519,000	\$11,446,000

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 29, 1999

/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	3/29/99
/s/ Cathy Kruse Cathy Kruse	Secretary/Treasurer and Director	3/29/99
/s/ Dennis Hoffelt Dennis Hoffelt	Director	3/29/99
Joseph V. Montalban	Director	
/s/ Paul A. Krile Paul A. Krile	Director	3/29/99

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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

E X H I B I T I N D E X
FOR
Form 10-K for 1998 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 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	*
10.2 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	*
10.3 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	*
10.4 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	*
10.5 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	*
10.6 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	*
10.7 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	*
10.8 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	*
10.9 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	*
10.10 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	*
10.11 Commercial Installment Note with addendum dated February 1, 1997, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.13 of Registrant's Form 10-K for fiscal year ended December 31, 1997	*

10.12	Purchase Agreement for Volumetric Production Payment dated as of December 3, 1997, by and between GeoResources, Inc. and Koch Producer Services, Inc. and all related documents.	*
10.13	Amended and Restated Secured Term Loan and Revolving Credit Agreement made as of December 5, 1997, by and between GeoResources, Inc. and Norwest Bank Montana, and all related documents.	*
10.14	Mining Lease and Agreement dated May 14, 1998, by and between Roger C. Ryan, Executor for the Estate of Constance P. Ryan, and as a single man, Susan Ryan, Joseph W. Ryan and Charlotte Friis as Lessors, and GeoResources, Inc. as Lessee and all related documents	54
10.15	License Agreement dated January 22, 1999, by and between GeoResources, Inc. and Silverado Landscape Materials, and all related documents	57
27	Financial Data Schedule	

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MINING LEASE AND AGREEMENT

THIS MINING LEASE, (the "Lease"), is made and entered into as of the 14th date of May, 1998, by and between ROGER C. RYAN, Executor for the Estate of CONSTANCE P. RYAN and as a single man, 17088 SE 58th Street, Belview, WA 98006, SUSAN RYAN, a single woman, 19 East Santa Ana Avenue, Fresno, CA 93704, JOSEPH W. RYAN, a/k/a JOSEPH WARREN RYAN, a single man, 2451 Perkins Lane West, Seattle, WA 98199, and CHARLOTTE FRIIS, a single woman, 4610 92nd Ave. SE, Mercer Island, WA 98040, hereinafter called "Lessor" (whether one or more) and GeoResources, Inc., a Colorado corporation, P. O. Box 1505, Williston, ND 58802-1505, hereinafter called Lessee:

WHEREAS, Lessor is the owner of interests in the following described land in Williams County, North Dakota:

Township 154 North, Range 100 West
Section 8: SE1/4SW1/4
Section 17: E1/2NW1/4, SW1/4NW1/4

containing 160 acres, more or less
(the "Leased Premises");

AND WHEREAS, it is the desire of both parties hereto that Lessee be permitted the right to mine coal, lignite, or oxidized lignite (hereinafter referred to collectively as "Leonardite") from the Leased Premises;

NOW, THEREFORE, in consideration of the premises and of mutual obligations hereinafter set forth and subject to the terms, conditions, and covenants hereinafter expressed, the parties hereto agree as follows:

1. Lessor hereby leases to Lessee and Lessee hereby leases from Lessor the exclusive rights to explore and mine the Leased Premises for Leonardite, and to use so much of the surface as may be reasonably required in the exercise of the rights herein granted. Lessee shall have exclusive authority over its operation and shall be the sole judge of choice of mining methods to be employed, of selecting the Leonardite to be mined, and of determining the extent and timing of extraction.

2. Lessee agrees to tender to Lessor on or before the 20th day of each of the months of January, April, July and October of each and every year so long as this Lease continues in effect production royalties according to the following royalty schedule for any Leonardite mined and removed from the Leased Premises during the three calendar months immediately preceding the payment date month. Lessee shall be responsible for weighing all Leonardite removed from the Leased Premises and shall promptly furnish Lessor copies of all weight receipts if so requested. Lessor shall have the right to test the accuracy of any scale or weighing device used by Lessee, and to inspect and examine any books or records of Lessee relating to the quantity of Leonardite removed from the Leased Premises, all such books and records to be maintained at Lessee's Williston, North Dakota office.

ROYALTY SCHEDULE

At least Fifty-Six Cents (\$.56) per ton but for each three calendar month payment period not less than the Producer Price Index (1982 reference base) for all commodities as prepared and published by the United States Department of Labor, Bureau of Labor Statistics, for the middle month of each three month period divided by 105 and multiplied by \$0.56.

3. This Lease shall remain in force for a term of ten (10) years from the 14th day of May, 1998, and ending the 13th day of May, 2008, subject to the condition that on or before the 14th day of May each year beginning May 14, 1998, Lessee tender to Lessor, as advance rental, the sum of One Thousand Dollars (\$1,000.00), which shall operate as annual minimum royalty to maintain this lease in force. This rental shall be credited against the first \$1,000.00 of any royalties that accrue thereafter during that year.

4. Lessee shall have the right to build roads necessary for transporting the equipment and materials necessary for its operations; provided, however, that all costs of construction and maintenance of said roads shall be the full responsibility of Lessee.

5. Lessee agrees to exonerate, hold harmless, and indemnify Lessor from and against any losses, damages, claims, suits, actions, judgments and costs which may arise or grow out of any injury to or death of persons or damage to property arising out of or attributable to negligence, or acts or omissions, or use by Lessee, or its servants, employees, guests, or customers on the Leased Premises. Lessee further agrees to hold harmless, protect, and indemnify Lessor from any claims arising from our asserted or alleged because of water or other pollution in any manner attributable to Lessee's operations.

6. Lessor is not liable for any damage to any property of Lessee kept or stored on the Leased Premises; all of such property kept or stored on the Leased Premises is so kept or stored at the risk of Lessee only and Lessee shall hold Lessor harmless from any claims arising out of damage to same, including subrogation of any claims by Lessee's insurer, unless the damage was caused by a willful act or the gross negligence of Lessor.

7. Lessee warrants that its exploring, mining and reclamation operations shall at all times be in full compliance with all laws, statutes, ordinances and regulations of federal, state, county, and municipal governments and agencies, including but not limited to, the North Dakota Public Service Commission rules and regulations for reclamation of surface-mined lands.

8. Lessee shall conduct its business in such a manner as to insure that no lien, attachment or execution shall in any manner be placed on the Leased Premises, but, if any such lien, attachment or execution shall be so placed, Lessor may at its option, after giving Lessee notice and reasonable opportunity to cure, discharge the same and Lessee shall reimburse Lessor for all costs in connection therewith, with interest at ten percent (10%).

9. Lessor shall have the right at all reasonable times and at Lessor's risk and expense to inspect the Leased Premises and Lessee's operations thereon.

10. Lessee shall pay all severance taxes and all taxes on personal property, fixtures, and improvements placed on the Leased Premises by Lessee as such taxes accrue, provided however, that if Lessee fails to pay such taxes when due, Lessor may at its option pay the taxes, and Lessee shall reimburse Lessor for any such payment with interests at ten percent (10%).

11. Lessor is not required to provide any services or perform any act except as other-wise provided herein, and rent and royalties must be paid without any claim for diminution or abatement, and the fact that Lessee's use of the Leased Premises is disturbed from any cause whatsoever except Lessor's acts shall not in any way suspend, abate or reduce the rental or royalty payments due except as otherwise provided in this Lease.

12. If this Lease terminates because of default by the Lessee, Lessor shall have a lien upon all personal property and improvements placed on or under the Leased Premises by the Lessee for the amount due under the Lease, and Lessee shall be prohibited from removing same until all such amounts have been paid in full.

13. Any notice or demand contemplated by this Lease, other than rental and royalty payments, shall be deemed given to Lessor five (5) days after mailed by certified or registered mail, return receipt requested, addressed to:

Joe Ryan	Roger Ryan
2451 Perkins Lane W.	17088 SE 58th St.
Seattle, WA 98199	Belview, WA 98006

and to Lessee at:

GeoResources, Inc.
P. O. Box 1505
Williston, ND 58802-1505

or to such other address as either party may by notice in writing specify.

14. (a) This Lease shall be governed by the laws of the State of North Dakota.

(b) Division of this Lease into sections is for convenience only, and shall not be considered in its interpretation.

(c) This Lease contains the entire agreement of the parties concerning the Leased Premises and supersedes all prior statements of agreements whether oral or written.

(d) No waiver of any covenant of this Lease shall be deemed a waiver of any other covenant herein.

15. It is mutually understood and agreed that Lessee may at any time surrender and terminate this Lease upon giving Lessor thirty (30) days notice in writing and paying to Lessor all payments due to the effective date of such surrender.

16. Each obligation and benefit hereunder shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, successors and assigns of the parties, although it is agreed that no change or division in ownership of the rentals or

royalties shall operate to enlarge the obligations or diminish the rights of Lessee, and any such change shall not be binding on the Lessee until after Lessee has been furnished with certified copies of monuments of title.

17. This instrument may be executed in any number of counter parts, each of which shall be considered an original for all purposes.

IN WITNESS WHEREOF, the Lessor and Lessee have executed this Lease this 19th day of June, 1998, to be effective the day and year first above written.

GEORESOURCES, INC.

/s/ Roger C. Ryan
ROGER C. RYAN

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

/s/ Roger C. Ryan, Executor
ROGER C. RYAN, Executor of the
Estate of CONSTANCE P. RYAN

ATTEST:

/s/ Susan Ryan
SUSAN RYAN

/s/ Cathy Kruse
Cathy Kruse, Secretary

/s/ Joseph W. Ryan
JOSEPH W. RYAN

/s/ Charlotte Friis
CHARLOTTE FRIIS

LESSEE

LESSOR

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LICENSE AGREEMENT

This agreement is made and entered into this 22nd day of January, 1999, by and between GeoResources, Inc. a Colorado Corporation ("Geo") and Silverado Landscape Materials, an Arizona Limited Liability Corporation ("SLM").

1. Grant of License. Geo hereby grants to SLM a exclusive license to enter onto the property known as the Reymert Property located in the Tonto National Forest in Pinal County, Arizona (the "Property") which is shown in Exhibit A attached hereto, for the sole purpose of producing and marketing decorative rock, boulders, rip rap, road base material and similar commercial rock products. SLM shall be responsible for providing all production equipment, including but not limited to all trucks and manpower to produce such materials at its sole cost and expense.
2. Term. The term of this Agreement shall commence on January 15, 1999, and shall continue in force and effect until January 15, 2002, unless terminated earlier in accordance with the provisions of Section 10 hereof.
3. Designation of Locations for Production. The precise location or locations for the production of materials from the Property shall be determined by mutual agreement between Geo and SLM, taking into account such factors as the quality of rock materials which can be produced, the ease of access to such locations, and such other factors as the parties shall deem relevant. In addition, Geo will provide access to a site or sites on the Property for the set up and operation of SLM's production equipment, and the storage of manufactured products and the disposition of by-products or waste rock. SLM will do all site preparation work necessary to provide access both to the production and the processing sites and any other on-site work necessary to facilitate its operations.
4. Royalties. In consideration for the license hereby granted, SLM will pay to Geo a royalty of Ten Percent (10%) of the gross selling price before taxes as invoiced for all products produced and sold from the Property. Such royalties will be paid on or before the 25th day of each month for the term of this agreement for all material sold by invoice during each second preceding calendar month. As an example of this, invoiced sales for January, 1999 would have royalties due March 25th, 1999. In addition if SLM can show GEO documentation, acceptable to GEO, that payment was never received for a particular invoiced sale then royalties would not be due on that sale. If royalties for any calendar month do not equal at least \$250.00 then SLM agrees to pay GEO a monthly minimum royalty of \$250.00 to continue this license agreement in effect. The failure of SLM to pay royalties or minimum royalties under the terms of this paragraph shall terminate the license agreement under the terms of paragraph 10
5. License Bonus Payment. As further consideration for the exclusive license hereby granted SLM agrees to pay GEO an initial license bonus payment of Twenty Five Hundred Dollars (\$2500.00) which GEO and SLM agree prepays any minimum royalties due for products sold through April 30th 1999, such that only monthly royalties in excess of \$250.00 would be due for calendar months January through April 1999.
6. Conduct of Operations. SLM agrees to conduct all of its operations in compliance with the regulations of all state and federal governmental agencies having jurisdiction over the Property. Such agencies include but are not limited to the United States Forest Service and the Mine Safety and Health Administration. Any bonds, permits or other regulatory requirements by governmental agencies will be the provided by SLM at its sole cost and expense.
7. Liability Insurance. During the term of this Agreement, SLM agrees to carry comprehensive general liability insurance covering its operations at the Property with liability in the amount of not less than One Million Dollars (\$1,000,000.00). Such insurance shall name Geo as an additional insured and shall provide that it may not be cancelled without at least 30 days advance written notice to Geo.
8. Indemnification. SLM will indemnify, defend and hold Geo harmless from any loss or liability resulting from its operations on the Property under this Agreement. Geo shall indemnify, defend and hold SLM harmless for any loss, cost or injury resulting from any operations by GEO on the Property.
9. Ownership of Reymert Porperty. GEO agrees that it will not enter into any agreement to sell the Property to any third party without giving SLM 60 days advance written notice of such intent.
10. Cancellation. Geo shall be entitled to terminate this Agreement before January 15th, 2002, upon not less than 90 days advance written

notice to SLM if, in the exercise of its good faith judgment, Geo can demonstrate that the continued operation by SLM at the Property shall materially interfere with other more economic activities of Geo on the Property. In addition, Geo may cancel this Agreement if, at any time, SLM has failed to comply with all of its obligations hereunder and, having received written notice of such failure, has not cured such failure within 30 days after receipt of such notice or if SLM's operation on the Property should be determined to be in violation of any applicable law, rule or regulation of any governmental body having jurisdiction.

SLM may cancel this Agreement upon not less than 30 days advance written notice to GEO if they are unable to locate commercially marketable material at a mutually acceptable location on the Property or if SLM's operation on the Property should be determined to be in violation of any applicable law, rule or regulation of any governmental body having jurisdiction.

11. Notices. Various provisions of this agreement provide for delivery of notices or other communications from one party to the other. Any such notices shall be given in writing and may be delivered in person or by deposit into the United States mails, by delivery by FAX or by any overnight courier. Notices delivered in person, by deposit into the United States mail or by overnight courier shall be effective when received. Notices delivered by FAX shall be effective when sent but any such notices shall be followed by delivery of a signed original notice. Any such notices shall be sent to the following addresses:

Silverado Landscaping Material
6504 East Orion Street
Mesa, AZ 85215
Attn: Steve Young, President
FAX: (602) 654-2704

GeoResources, Inc.
P. O. Box 1505
1407 W. Dakota Parkway, Ste. 1B
Williston, ND 58801
Attn: J. P. Vickers, President
Fax: (701) 572-0277

13. Taxes. SLM shall be responsible for the payment of any severance, mining or sales taxes due to the State of Arizona on account of the operations hereunder. Geo shall be responsible for the payment of all property taxes payable on its Property.
14. Choice of Laws. This Agreement shall be deemed to have been made in the State of Arizona and shall be subject to the jurisdiction of Arizona courts. In the event of any litigation between the parties with respect to the Agreement, the prevailing party shall be entitled to recover such attorneys' fees and costs as the court may award.

IN WITNESS WHEREOF this Agreement is made as of the date first above written.

SILVERADO LANDSCAPE MATERIAL
an Arizona Limited Liability Corporation

By /s/ Randy Parsons
Randy Parsons
Vice President

GeoResources, Inc.
a Colorado Corporation

By /s/ J. P. Vickers
J. P. Vickers
President

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