

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

GEORESOURCES INC

CIK: **41023** | IRS No.: **840505444** | State of Incorporation: **CO** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-08041** | Film No.: **98581370**
SIC: **1311** Crude petroleum & natural gas

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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, 1997.
 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 20, 1998, was approximately \$5,328,806 (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 20, 1998: 4,097,214

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, 1997, the Registrant had developed oil and gas leases covering approximately 12,163 net acres in Montana and North Dakota, and during 1997 sold an average 584 net equivalent barrels of oil per day from 94 gross (66.80 net) producing wells located primarily in North Dakota.

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

Mining and Manufacturing Leonardite Products

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

In 1997, the Company's leonardite products were sold primarily to drilling mud companies located in coastal areas of the Gulf of Mexico. Demand for the plant's output is governed mainly by the level of oil and gas drilling activities, particularly in the gulf coast area, both onshore and offshore. Drilling activity declined substantially in the mid 1980's and has remained at relatively low levels for the past several years. The Registrant has no significant supply contracts with individual customers.

Status of Products, Services or Industry Segments in Development

The Company owns 82% of the stock of Belmont Natural Resource Company, Inc. (BNRC), a Washington corporation formed for the purpose of exploiting natural gas opportunities in the Pacific Northwest. BNRC owns oil and gas leases covering 6,713 gross acres (6,479 net) on a gas prospect located in the State of Washington. Activities in 1997

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 1998.

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 1998.

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 1997, Registrant sold its crude oil to 20 purchasers. Koch Oil Company was the major customer, accounting for approximately 86% of the Registrant's oil and gas revenue in 1997 or approximately 71% 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 1997, the Registrant sold leonardite products to 43 customers. The largest customer in 1997 for leonardite products made purchases totaling 17% of the Registrant's mining and manufacturing revenue or approximately 3% 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. In December 1997, the Company entered into a Volumetric Production Payment with Koch Producer Services, Inc., to deliver 75 barrels of oil per day to Koch from one of the Company's properties. This agreement provides for delivery of fixed quantities of

oil for one year. 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 1997 levels. Management believes significantly higher plant utilization would increase emission levels and could make it necessary to replace or upgrade air quality control equipment. Future environmental compliance costs that might be required to upgrade the equipment are not known at this time.

Foreign Operations and Export Sales

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

Employees

As of March 15, 1998, 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
1997	8,094	\$ 94.44
1996	8,909	\$ 94.49
1995	7,528	\$ 93.51

The Registrant's leonardite mining properties consist of a developed lease from private parties and one undeveloped lease from the United States Department of the Interior, Bureau of Land Management. The leased land is located about one mile from the plant site in Williams County, North Dakota. The private-party (fee) lease totals approximately 160 acres. The federal lease from the Bureau of Land Management (BLM) covers 160 undeveloped acres. In 1994, the Company formed a 240-acre logical mining unit (LMU), in accordance with BLM regulations, consisting

of 80 acres of the fee lease and 160 acres of the BLM lease. This LMU allows current operations on the fee lease to satisfy diligent development and other requirements for 160 acres of the BLM lease. Management believes the leonardite contained in the 240-acre LMU is sufficient to supply its plant's raw material requirements for many years and that before these reserves were exhausted, the Company would be able to acquire other fee or federal coal leases in the same area.

Oil and Gas Properties

The Registrant owns developed oil and gas leases totaling 16,680 gross (12,163 net) acres as of March 15, 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**
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
1995	151,467	13,061	153,644	\$14.24	\$ 0.98	\$ 6.18

*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 March 15, 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
96	67.78	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 March 15, 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	7,627	17,377	17,312	26,377	24,939
North Dakota	7,680	4,536	30,842	11,029	38,522	15,565
Washington	0	0	6,713	6,479	6,713	6,479
ALL STATES	16,680	12,163	54,932	34,820	71,612	46,983

 *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	
	1997	0.00	0.02	1.67	
1996	0.00	0.08	0.67	0.00	0.75
1995	0.00	0.00	1.34	0.00	1.34

Present Activities From January 1, 1998 to March 15, 1998, the Registrant had one gross (.67 net) horizontal well in the process of drilling. This well was completed and put on production prior to March 15, 1998, and it is therefore included in the previous table titled "Gross and Net Productive Wells".

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, 1997 have been filed with any federal authority or agency. Other than the estimates of reserves at December 31, 1996, filed with the Securities and Exchange Commission, the Registrant did not file reserve reports with any other federal agencies within the past 12 months.

Silver Property

The Registrant owns seven patented mining claims and 15 unpatented mining claims in Pinal County, Arizona. These claims, known as the Reymert Silver Property, have produced silver sporadically since the 1880's. The property's last ore production was in 1989 under a lease arrangement. In 1993, the Registrant entered into a License Agreement with another company to allow commercial rock production from the patented claims. The Registrant receives a royalty of \$2 per ton for rock severed from the property. No commercial rock production occurred in 1997. No mining activities are presently being conducted on this property. Management has no plans to devote significant financial resources to this property in 1998; 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 1997, 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
1996	1st Quarter	\$1.25	\$1.63
	2nd Quarter	\$1.44	\$2.06
	3rd Quarter	\$1.38	\$1.88
	4th Quarter	\$1.50	\$4.38
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

As of March 15, 1998, 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.

ITEM 6. SELECTED FINANCIAL DATA

	1997	1996	1995	1994	1993
Operating					

Revenue	\$ 4,189,793	\$ 3,806,790	\$ 2,874,001	\$ 2,442,850	\$ 2,375,150
Income (Loss) Before Cumulative Effect of Accounting Change	\$ 766,265	\$ 733,726	\$ 303,889	\$ 40,141	\$ (1,654,090)
Net Income (Loss)	\$ 766,265	\$ 733,726	\$ 303,889	\$ 40,141	\$ (1,077,090)
Income (Loss) Per Share From Continuing Operations	\$.19	\$.18	\$.08	\$.01	\$ (.41)
Net Income (Loss) Per Share	\$.19	\$.18	\$.08	\$.01	\$ (.27)
AT YEAR END:					
Total Assets	\$ 8,032,328	\$ 7,909,965	\$ 6,690,285	\$ 5,796,354	\$ 5,856,396
Long-term Debt	\$ 666,000	\$ 998,097	\$ 958,330	\$ 787,035	\$ 1,019,792
Current Maturities	\$ 457,097	\$ 283,200	\$ 511,594	\$ 385,219	\$ 371,677
Working Capital (Deficit)	\$ 18,240	\$ 205,463	\$ (171,949)	\$ (86,786)	\$ 149,646
Stockholders' Equity	\$ 5,691,597	\$ 4,873,927	\$ 4,114,001	\$ 3,798,549	\$ 3,758,408

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 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 were 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.

Comparison of 1996 to 1995 Revenue and Gross Margin

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

Oil and gas production costs were \$1,082,000 in 1996 compared to \$950,000 in 1995, an increase of 14%. This \$132,000 increase was caused by a \$46,000 increase in production taxes resulting from higher oil prices, a \$44,000 increase related to increased workover activity and a \$42,000 increase in winter-related costs including snow removal and increased prices of propane fuel for oil treating facilities. Production costs on a per equivalent barrel basis however, remained relatively stable averaging \$6.40 for 1996 compared to \$6.18 for 1995. The stability in per barrel costs was due to increased production which spread the costs over more barrels. Gross margin for 1996 oil and gas operations before deductions for depletion and selling, general and administrative expenses was \$1,883,000, or 63% of revenue, compared to \$1,220,000, or 56% of revenue, for 1995. The increase in 1996 gross margin was primarily due to higher 1996 oil prices previously discussed.

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

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

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

Comparison of 1996 to 1995 Consolidated Analysis

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES.

At December 31, 1997, the Company had current assets of \$1,358,000 compared to current liabilities of \$1,340,000 for a current ratio of 1.01 to 1 and working capital of \$18,000. This compares to a current ratio of 1.11 to 1 at December 31, 1996 and working capital of \$205,000. The lower working capital for 1997 was primarily due to lower oil and gas receivables from lower year-end 1997 oil prices and the Company continuing to use cash and cash flow to drill additional horizontal wells.

During the year ended December 31, 1997, the Company generated cash flows from operating activities of \$2,228,000 which is \$1,077,000 greater than the amount generated during 1996. This increase was due in a large part to increased oil production in 1997 coupled with other changes to current assets and liabilities. During the second quarter of 1997, the Company drilled the Ballantyne-State/Steinhaus H1 (BSS H1) horizontal well (1 gross, 1.0 net) in the Wayne Field, Bottineau County, ND; and the Company spudded a second horizontal well in the same field, the Oscar Fossum H4 (1 gross, .67 net) just before year-end 1997. The Oscar Fossum H4 was drilled and completed successfully, and was put on production in February 1998. The Company anticipates that cash flows from operations and funds available under a new 1997 \$3,000,000 revolving line of credit will be sufficient to meet its short-term cash requirements. This new line of credit replaces the Company's prior 1995 line of credit and contains terms substantially the same as the 1995 line. 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 1997, the Company's investing activities used \$2,707,000 of cash which was primarily for additions to property, plant and equipment. The additions to property and equipment consists of the approximate amounts as follows: Exploration and development costs of \$2,553,000 that included the paid portion of costs for drilling and completing the Oscar Fossum H3 in late 1996 and the BSS H1 in mid-1997, proved property acquisition costs of \$29,000 that included the cost of acquiring some small interests in several producing wells, unproved property costs of \$55,000 primarily for oil and gas lease costs, delay rental costs of \$27,000 and improvements to the Company's Leonardite plant of \$43,000.

During 1997, the Company's financing activities also utilized \$583,000 of cash for principal payments on long-term debt agreements. This amount consisted of \$283,200 of regularly scheduled debt maturities for 1997 plus \$300,000 that was paid down prior to terming out the Company's 1995 revolving line of credit in December 1997 and replacing it with the new 1997 \$3,000,000 revolving line of credit discussed above.

The sources of cash in 1997 for the investing and financing activities discussed above were the cash flows provided by operating activities, \$425,000 of borrowings on the Company's 1995 revolving line of credit and a Volumetric Production Payment (VPP) with Koch Producer Services, Inc., that forward sold 27,375 barrels of oil from one of the Company's properties and provided the Company with cash of \$364,550. A

\$300,000 portion of the VPP cash was then applied to partially pay down the 1995 revolving line of credit before terming it out as discussed above. The VPP agreement started December 1, 1997 and ends November 30, 1998. During that time, the Company's production is reduced by the 75 barrels of oil per day that is being delivered to Koch under the terms of the forward sale.

Management estimates that the Company could incur development costs in 1998 in the range of \$1,000,000 related to the Company's proved developed nonproducing and proved undeveloped oil and gas properties. Other planned expenditures for 1998 consist of delay rentals and other exploration costs of approximately \$100,000. Capital expected to be used for 1998 principal payments required under existing debt agreements totals \$457,000. The estimated amounts for exploration and development are uncertain because of the extremely low oil prices that exist as of March 1998. During March 1998, crude oil prices on the NYMEX have both declined to their lowest levels in nearly 10 years and then also regained nearly 25% of their value. These dramatic fluctuations are caused by the market's perception of what major oil producing countries will do to reduce oil production. The price the Company receives for its oil production is tied directly to world oil markets, and lower prices will reduce cash flow. The Company budgets and estimates its capital expenditures, but these estimates can change, either upward or downward, very 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 the continued future cash flows from operations, and, if necessary, possible forward sales of oil reserves or additional debt or equity financing.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name and Age	Position(s) with the Company	Period of Service as a Director or Officer
--------------	------------------------------	--

Jeffrey P. Vickers Age: 45	President and Director	Since 1982
Thomas F. Neubauer Age: 63	Vice President of Leonardite Operations	Since June 1992
Cathy Kruse Age: 43	Secretary, Treasurer and Director	Since October 1981; October 1981 to May 1985 and since June 1990; since June 1996
H. Dennis Hoffelt Age: 57	Director	From 1967 through June 1986; and since June 1987
Joseph V. Montalban Age: 74	Director	Since June 1996
Paul A. Krile Age: 70	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, 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. With the exception of Jeffrey P. Vickers, 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			All Other Compen- sation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compen- sation	Awards Restricted Stock Award(s) (\$)	Securities Underlying Options SARs (#)	Payouts LTIP Payouts (\$)	
Jeffrey P. Vickers CEO	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
	1995	\$74,659	-0-	-0-	\$925	35,000	N/A	\$8,150

In the table above, the column titled "Restricted Stock Awards" is comprised of a 1995 grant of 1,000 shares of common stock from the Registrant to each full-time employee, including Jeffrey P. Vickers. Restricted Stock Awards are "restricted securities" as

defined in Rule 144 adopted under the Securities Act of 1933. The column titled "All Other Compensation" is comprised entirely of profit sharing amounts.

If the Company achieves net income in a fiscal year, the Board of Directors may determine to contribute an amount based on the Company's profits to the Employees' Profit Sharing Plan and Trust adopted in December 1978 (the "Profit Sharing Plan"). An eligible employee may be allocated from 0% to 15% of his compensation depending upon the total contribution to the plan. A total of 20% of the amount allocated to an individual vests after three years of service, 40% after four years, 60% after five years, 80% after six years and 100% after seven or more years. On retirement, an employee is eligible to receive the vested amount. On death, 100% of the amount allocated to an individual is payable to the employee's beneficiary. The Company accrued a \$21,508 contribution for 1997 with contributions for 1996 and 1995 being \$60,000 and \$35,000, respectively. As of December 31, 1997, vested amounts in the Profit Sharing Plan for all officers as a group were approximately \$366,000.

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	Value of
			Unexercised Options/SARs at FY-End(#) Exercisable/ Unexercisable	Unexercised In-the-Money Options/SARs at FY-End(\$) Exercisable/ Unexercisable
Jeffrey P. Vickers, CEO	-0-	-0-	106,000/0	\$245,125/0

At the 1993 Annual Meeting of Shareholders, the Company's 1993 Employees' Incentive Stock Option Plan (the "Plan") was approved by shareholders. The purpose of the Plan is to enable the Corporation to attract persons of training, experience and ability to continue as employees and to furnish additional incentive to such persons, upon whose initiative and efforts the successful conduct and development of the business of the Corporation largely depends, by encouraging such persons to become owners of the common stock of the Corporation.

The term of the Plan expires February 17, 2003, ten years from the date the Plan was approved by the Board of Directors. If within the duration of an option, there shall be a corporate merger consolidation, acquisition of assets or other reorganization; and if such transaction shall affect the optioned stock, the optionee shall thereafter be entitled to receive upon exercise of his option those shares or

securities that he would have received had the option been exercised prior to such transaction and the optionee had been a stockholder of the Corporation with respect to such shares.

The Plan is administered by the Board of Directors. The exercise price of the common stock offered to eligible participants under the Plan by grant of an option to purchase common stock may not be less than the fair market value of the common stock at the date of grant; provided, however, that the exercise price shall not be less than 110% of the fair market value of the common stock on the date of grant in the event an optionee owns 10% or more of the common stock of the Corporation. A total of 300,000 shares have been reserved for issuance pursuant to options to be granted under the Plan. Of the 300,000 reserved shares, 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 1997.

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, 1998. 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, \$0.01 par value	Jeffrey P. Vickers	374,934-Direct and Indirect (a)	9.2%
Common Stock, \$0.01 par value	Paul A. Krile	207,500-Direct (b)	5.1%
Common Stock, \$0.01 par value	Cathy Kruse	19,450-Direct (d)	(c)
Common Stock, \$0.01 par value	Thomas F. Neubauer	20,500-Direct (e)	(c)
Common Stock, \$0.01 par value	H. Dennis Hoffelt	39,000-Direct and Indirect (f)	(c)

Common Stock, \$.01 par value	Joseph V. Montalban	463,800-Direct (g)	11.3%
Common Stock, \$.01 par value	Officers and Directors as a Group- (six persons)	1,125,184-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 19,450 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, 1998.

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)	11.3%
Common Stock,	Jeffrey P. Vickers	374,934-Direct and	9.2%

\$.01 par value	1814 14th Ave. W. Williston, ND 58801	Indirect (b)	
Common Stock, \$.01 par value	Paul Krile P. O. Box 329 Sioux Rapids, IA 50585	207,500-Direct (a)	5.1%

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

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

No arrangements are known by the Company which could, at a subsequent date, result in a change in control of the Company. The Company is not aware of any officer, director or holder of greater than 10% of the Company's common stock who has failed to file the required SEC Forms 3, 4 or 5 on a timely basis for 1997.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

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

See (a) (1) above.

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

	Page
REPORT OF INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS	27
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated balance sheets	28
Consolidated statements of operations	29
Consolidated statements of stockholders' equity	30
Consolidated statements of cash flows	31 - 32
Notes to consolidated financial statements	33 - 46
UNAUDITED SUPPLEMENTARY INFORMATION - Disclosures about oil and gas producing activities	47 - 49

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, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1997, 1996 and 1995. 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, 1997 and 1996, and the results of its operations and its cash flows for the years ended December 31, 1997, 1996 and 1995, in conformity with generally accepted accounting principles.

/s/ Richey, May & Co., P. C.
 Denver, Colorado
 March 1, 1998

GEORESOURCES, INC., AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEETS
 DECEMBER 31, 1997 AND 1996

ASSETS		
CURRENT ASSETS:	1997	1996
Cash and equivalents	\$ 490,385	\$ 754,888
Trade receivables, net	521,934	936,045
Inventories	288,264	251,499
Prepaid expenses	31,422	18,201
Investments	25,966	57,771
Total current assets	1,357,971	2,018,404
 PROPERTY, PLANT AND EQUIPMENT, at cost:		
Oil and gas properties, using the full cost method of accounting:		
Properties being amortized	17,997,596	16,450,061
Properties not subject to amortization	124,672	93,640
Leonardite plant and equipment	3,211,825	3,216,597
Other	702,068	693,641
	22,036,161	20,453,939
Less accumulated depreciation, depletion, amortization and impairment	(15,510,109)	(14,708,047)
Net property, plant and equipment	6,526,052	5,745,892
 OTHER ASSETS:		
Mortgage loans receivable, related party	103,321	103,321
Other	44,984	42,348
Total other assets	148,305	145,669
 TOTAL ASSETS	 \$ 8,032,328	 \$ 7,909,965
 LIABILITIES AND STOCKHOLDERS' EQUITY		
 CURRENT LIABILITIES:		
Accounts payable	\$ 770,204	\$ 1,343,677
Current maturities of long-term debt	457,097	283,200

Accrued expenses	112,430	186,064
Total current liabilities	1,339,731	1,812,941
LONG-TERM DEBT, less current maturities	666,000	998,097
DEFERRED INCOME TAXES	335,000	225,000
CONTINGENCIES (NOTE I)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; authorized 10,000,000 shares; issued and outstanding, 4,097,214 and 4,060,714 shares, respectively	40,972	40,607
Additional paid-in capital	880,797	829,757
Retained earnings	4,769,828	4,003,563
Total stockholders' equity	5,691,597	4,873,927
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,032,328	\$ 7,909,965

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

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997	1996	1995
OPERATING REVENUE:			
Oil and gas sales	\$ 3,425,395	\$ 2,964,939	\$ 2,170,057
Leonardite sales	764,398	841,851	703,944
	4,189,793	3,806,790	2,874,001
OPERATING COSTS AND EXPENSES:			
Oil and gas production	1,335,605	1,082,324	950,116
Cost of leonardite sold	597,813	667,437	559,659
Depreciation, depletion and amortization	850,599	674,805	601,814
Selling, general and administrative	449,161	498,882	341,008
	3,233,178	2,923,448	2,452,597
Operating income	956,615	883,342	421,404
OTHER INCOME (EXPENSE):			
Interest expense	(125,007)	(113,384)	(128,689)
Interest income	25,036	18,287	10,808
Other income and losses, net	19,621	31,050	28,366

	(80,350)	(64,047)	(89,515)
Income before income taxes	876,265	819,295	331,889
INCOME TAX EXPENSE	110,000	85,569	28,000
Net income	\$ 766,265	\$ 733,726	\$ 303,889

EARNINGS PER SHARE:

Net income, basic and diluted	\$.19	\$.18	\$.08
Weighted average number of shares outstanding	4,076,284	4,056,274	4,025,234
Dilutive potential shares - Stock options	63,361	38,686	13,470
Adjusted weighted average shares	4,139,645	4,094,960	4,038,704

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

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

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

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

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 766,265	\$ 733,726	\$ 303,889
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	850,599	674,805	601,814
Deferred income taxes	110,000	74,000	28,000
Issuance of common stock as compensation	--	26,200	11,563
Other	2,364	2,192	2,326
Changes in assets and liabilities:			
Decrease (increase) in:			
Trade receivables	414,111	(345,715)	(96,735)
Inventories	(36,765)	33,519	(38,551)
Prepaid expenses and other	(13,221)	(741)	(187)
Hedging instruments	31,805	(47,652)	10,853
Increase (decrease) in:			
Accounts payable	145,629	(87,604)	(78,831)
Accrued expenses	(43,034)	87,527	59,473
Net cash provided by operating activities	2,227,753	1,150,257	803,614
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(2,707,097)	(583,128)	(899,677)
Proceeds from sale of property and equipment	364,550	--	20,234
Other	(7,314)	(12,756)	(47,215)
Net cash used in investing activities	(2,349,861)	(595,884)	(926,658)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	425,000	325,000	665,000
Principal payments on long-term debt	(583,200)	(513,627)	(367,330)
Proceeds from issuance of common stock	20,805	--	--
Debt issue costs	(5,000)	(2,936)	(5,225)
Net cash provided by (used in) financing activities	(142,395)	(191,563)	292,445
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(264,503)	362,810	169,401
CASH AND EQUIVALENTS, beginning of year	754,888	392,078	222,677

CASH AND EQUIVALENTS, end of year	\$	490,385	\$	754,888	\$	392,078
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The accompanying notes are an integral part of these consolidated financial statements.

GEORESOURCES, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	1997	1996	1995
Cash paid for:			
Interest	\$ 124,245	\$ 114,850	\$ 127,990
Income taxes	9,922	1,569	336

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

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

A. SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of GeoResources, Inc., and its 82% owned subsidiary, Belmont Natural Resource Company, Inc. ("BNRC"). All material intercompany transactions and balances between the entities have been eliminated. The minority interest in BNRC is not presented, as the amount is immaterial.

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

Reclassifications

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

Use of Estimates

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

Cash Equivalents

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

Inventories

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

Investments

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

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

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

Oil and Gas Properties

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

restoration and environmental exit costs) are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. The Company's oil and gas depreciation, depletion and amortization rate per equivalent barrel of oil produced was \$3.40, \$3.27 and \$3.09 for 1997, 1996 and 1995, respectively.

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

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

Costs not being amortized at December 31, 1997, consist of the unevaluated, unimpaired cost of undeveloped oil and gas properties which were acquired during the following years:

1997	\$	40,264
1996		15,993
1995		44,203
1994 and prior		24,212
Total	\$	124,672

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, 1997, 1996 and 1995.

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 weighted average number of common shares outstanding. The dilutive effect of outstanding stock options was immaterial.

Recently Issued Accounting Standards

In June 1997, the FASB issued SFAS No. 130-Reporting Comprehensive Income. SFAS No. 130 requires the reporting and display, in a full set of general-purpose financial statements, of all items that are required to be recognized under accounting standards as components of comprehensive income. SFAS No. 130 is effective for financial statements issued for periods beginning after December 15, 1997 and reclassification of financial statements for earlier periods for comparative purposes is required. The adoption of SFAS No. 130 will not have a material impact on these financial statements

In June 1997, the FASB issued SFAS No. 131-Disclosures about Segments of an Enterprise. SFAS No. 131 establishes standards for the way that public companies report information about their operating segments, products and services, geographic areas, and major customers. SFAS No. 131 is effective for periods beginning after December 15, 1997 and requires restatement of information presented for prior periods. The adoption of SFAS No. 131 will not have a material impact on these financial statements.

B. INDUSTRY SEGMENTS AND MAJOR CUSTOMER:

Segment information

The Company conducts all of its operations within the United States, which consist principally of oil and gas exploration and production and the mining and processing of leonardite. There are no sales or other transactions between these two business segments. Presented below is information concerning the Company's business segments for the years ended December 31, 1997, 1996 and 1995:

	1997	1996	1995
Revenue:			
Oil and gas	\$ 3,425,395	\$ 2,964,939	\$ 2,170,057
Leonardite	764,398	841,851	703,944
	\$ 4,189,793	\$ 3,806,790	\$ 2,874,001
Operating income:			
Oil and gas	\$ 1,365,729	\$ 1,330,169	\$ 744,465
Leonardite	33,859	40,737	10,657
General corporate activities	(442,973)	(487,564)	(333,718)
	\$ 956,615	\$ 883,342	\$ 421,404
Depreciation and depletion:			
Oil and gas	\$ 724,061	\$ 552,446	\$ 475,476
Leonardite	108,903	107,087	111,958
General corporate activities	17,635	15,272	14,380
	\$ 850,599	\$ 674,805	\$ 601,814
Identifiable assets, net:			
Oil and gas	\$ 5,452,759	\$ 5,014,782	\$ 4,110,608
Leonardite	1,452,847	1,501,054	1,552,442
General corporate activities	1,126,722	1,394,129	1,027,235
	\$ 8,032,328	\$ 7,909,965	\$ 6,690,285
Capital expenditures incurred:			
Oil and gas	\$ 1,920,470	\$ 1,156,842	\$ 1,162,393
Leonardite	43,498	29,160	26,264
General corporate activities	9,927	21,095	4,095
	\$ 1,973,895	\$ 1,207,097	\$ 1,192,752

Major Customer and Concentrations of Credit Risk

Sales to a major oil and gas customer were 71%, 65% and 53% of total revenue for the years ended December 31, 1997, 1996 and 1995, respectively. Accounts receivable from this major customer were 44% and 38% of total accounts receivable at December 31, 1997 and 1996, respectively.

The Company has two bank accounts with balances of approximately \$191,000 and \$226,000, at December 31, 1997. Each account is federally insured for balances up to \$100,000.

C. TRADE RECEIVABLES AND INVENTORIES:

Trade receivables at December 31, 1997 and 1996 are comprised of the following:

	1997	1996
Oil and gas purchasers	\$ 318,096	\$ 700,833
Leonardite customers	215,254	246,628
	533,350	947,461
Less allowance for doubtful accounts	(11,416)	(11,416)
	\$ 521,934	\$ 936,045

As of December 31, 1997 and 1996, inventories by major classes are comprised of the following:

	1997	1996
Crude oil	\$ 29,550	\$ 36,022
Leonardite inventories:		
Finished products	90,302	52,543
Raw materials	85,433	94,387
Materials and supplies	82,979	68,547
Total leonardite inventories	258,714	215,477
	\$ 288,264	\$ 251,499

D. MORTGAGE LOANS RECEIVABLE, RELATED PARTY

Mortgage loans receivable, related party represent mortgage loans on the residence of an officer/shareholder of BNRC purchased from a third party in November 1993, and are recorded at purchase cost. The mortgages require monthly payments of interest at 8% per annum with principal due January 14, 1999. The Company received interest income from these loans of \$8,100 for each of the years ended December 31, 1997, 1996 and 1995.

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 to be 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. The agreement requires the Company to maintain tangible net worth of not less than \$3,500,000 and prohibits the Company from incurring any debt secured by the specified property.

F. LONG-TERM DEBT:

Long-term debt at December 31, 1997 and 1996 consists of the following loans and a revolving line of credit (RLOC) which are all with one bank:

	1997	1996
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	\$ 181,297
The 1993 Oil & Gas Loan, prime plus 1% (9.5% total rate at December 31, 1997), due in monthly installments of \$16,000 plus interest, due September 1999, collateralized by oil and gas properties	333,000	525,000
The 1995 Oil & Gas Loan, prime plus 1% (9.5% total rate at December 31, 1997), due in monthly installments of \$14,583 plus interest, due December 2001, collateralized by oil and gas properties	700,000	575,000
The 1997 Oil & Gas RLOC, \$3,000,000 revolving line of credit, interest payable monthly at prime plus .75%, (9.25% total rate at December 31, 1997), expires January 5, 2001, collateralized by oil and gas properties	--	--
Total long-term debt	1,123,097	1,281,297
Less current maturities	(457,097)	(283,200)
Long-term debt, less current maturities	\$ 666,000	\$ 998,097

Aggregate maturities required on long-term debt at December 31, 1997, are as follows:

Year Ending December 31:	
1998	\$ 457,097
1999	316,000
2000	175,000
2001	175,000

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

The Company's long-term debt was obtained pursuant to financing agreements which include the following covenants: Maintain a current ratio of not less than 1.25 to 1 exclusive of current maturities of long-term debt; maintain debt to tangible net worth of not more than 1.5 to 1; maintain a net worth of at least \$3,500,000; not encumber 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, 1997, 1996 and 1995, are as follows:

	1997	1996	1995
Current tax expense	\$ --	\$ 11,569	\$ --
Deferred tax expense	369,000	232,000	95,000
Decrease in deferred tax assets valuation allowance	(259,000)	(158,000)	(67,000)
	\$ 110,000	\$ 85,569	\$ 28,000

During 1997, 1996 and 1995, the Company recorded a deferred tax expense of \$369,000, \$232,000 and \$95,000, respectively. This related primarily to net income which was not currently taxable due to the deduction of intangible drilling costs for tax purposes in 1997 and 1996 and the utilization of net operating loss carryforwards in 1995. The Company also decreased the deferred tax asset valuation allowance by \$259,000, \$158,000 and \$67,000 during 1997, 1996 and 1995, respectively, primarily based upon the projection of utilizing additional statutory depletion carryforwards in the future.

The tax effects of significant temporary differences and carryforwards which give rise to the Company's deferred tax assets and liabilities at December 31, 1997 and 1996, are as follows:

	1997	1996
Deferred Tax Assets:		
Net operating loss carryforward	\$ 390,000	\$ 278,000
Statutory depletion carryforward	1,113,000	983,000
Tax credit carryforwards	69,000	226,000
Other	47,000	70,000
	1,619,000	1,557,000
Valuation Allowance:		
Beginning of year	(751,000)	(909,000)
(Increase) decrease	259,000	158,000
End of year	(492,000)	(751,000)

Deferred Tax Liabilities:

Accumulated depreciation and depletion	(1,462,000)	(1,031,000)
Net Deferred Tax Liability, long-term	\$ (335,000)	\$ (225,000)

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, 1997, 1996 and 1995 is as follows:

	1997	1996	1995
Income tax expense at statutory rate	35%	35%	35%
Loss carryover benefits	--	--	(14)
Change in valuation allowance	(30)	(20)	(21)
Graduated tax rate difference	--	(13)	--
State income taxes and other	8	8	8
	13%	10%	8%

For income tax purposes, the Company has a statutory depletion carryover of approximately \$3,360,000 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
1998-2000	\$ --	\$ 45,000
2001	412,000	--
2003	102,000	--
2008	115,000	--
2009	237,000	--
2012	313,000	--
Total	\$ 1,179,000	\$ 45,000

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.

Prior to 1995, no options had been granted. During 1995, options were granted to purchase 95,000 shares of common stock at an exercise price of \$1.15 per share. No options were granted in 1996. During 1997, options were granted to purchase 102,500 shares at \$2.37 per share and 97,500 shares at \$2.31 per share. No options were exercised prior to 1997. During 1997, options were exercised to purchase 16,500 common shares for total proceeds to the Company of \$20,805. At December 31, 1997, the following options are outstanding:

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 the 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 net income and earnings per share would have been reduced to pro forma amounts of \$598,065 and \$.15 and \$269,839 and \$.07, in 1997 and 1995, respectively. The fair value of the options on the date of grant is estimated using the Black-Scholes option-pricing model with the following assumptions:

	1997	1995
Expected volatility	39%	31%
Risk free interest rate	5.71%	5.77%
Expected lives	3.5 years	4 years
Expected dividends	None	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, 1997, 1996 and 1995 were \$21,508, \$60,000 and \$35,000, 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, 1997 and 1996:

	1997	1996
Building and improvements	\$ 163,834	\$ 163,834
Accumulated depreciation	(55,563)	(47,371)
	\$ 108,271	\$ 116,463

The Company leases the remainder of the building to unaffiliated businesses under cancelable lease agreements. During 1997, 1996 and 1995, the Company received \$22,200, \$20,938 and \$19,500, 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 \$6,807 and \$50,450 at December 31, 1997 and 1996, respectively. The fair value of those instruments, based on quoted market prices, was (\$4,291) and \$17,450 at December 31, 1997 and 1996, 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 \$30,269, \$102,656 and \$10,401 for the years ended December 31, 1997, 1996 and 1995, respectively.

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 and \$33,000 at December 31, 1997 and 1996, respectively.

L. FOURTH QUARTER ADJUSTMENTS:

During the fourth quarter of 1997, deferred income tax liabilities increased \$54,000 and income tax expense increased \$46,491 over the amounts reported at September 30, 1997, due to changes in estimates regarding the utilization of tax credit carryforwards.

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, 1997, 1996 and 1995:

	1997	1996	1995
Proved Properties	\$ 17,997,596	\$ 16,450,061	\$ 15,272,170
Unproved properties	124,672	93,640	157,174
Total	18,122,268	16,543,701	15,429,344
Less accumulated depreciation, depletion, amortization and impairment	(13,069,796)	(12,345,734)	(11,793,289)
Net capitalized costs	\$ 5,052,472	\$ 4,197,967	\$ 3,636,055

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, 1997, 1996 and 1995:

	1997	1996	1995
Property acquisition costs:			
Proved	\$ 28,420	\$ 42,611	\$ 189,036
Unproved	55,230	21,027	15,479
Exploration costs	75,765	113,145	115,957
Development costs	1,761,055	980,059	841,921
	\$ 1,920,470	\$ 1,156,842	\$ 1,162,393

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, 1997, 1996 and 1995.

	1997	1996	1995
Oil and gas sales	\$ 3,425,395	\$ 2,964,939	\$ 2,170,057
Production costs	(1,335,605)	(1,082,324)	(950,116)
Depletion, depreciation and amortization	(724,061)	(552,446)	(475,476)
	1,365,729	1,330,169	744,465
Imputed income tax provision	--	10,000	26,000
	\$ 1,365,729	\$ 1,320,169	\$ 718,465

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

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

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under economic and operating conditions existing as of the end of each respective year. The year-end selling price of oil and gas is one of the primary factors affecting the determination of proved reserve quantities which fluctuate directly with that price.

Presented below is a summary of the changes in estimated proved reserves of the Company, all of which are located in the United States, for the years ended December 31, 1997, 1996 and 1995:

	1997		1996		1995	
	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)	Oil (bbl)	Gas (mcf)
Proved reserves, beginning of year	2,154,000	261,000	2,047,000	266,000	1,642,000	244,000
Purchases of reserves-in- place	1,000	--	21,000	--	67,000	--
Sales of reserves						

-in-place	(25,000)	--	--	--	--	--
Extensions and discoveries	201,000	1,000	12,000	3,000	5,000	1,000
Improved recovery	350,000	--	156,000	--	443,000	--
Revisions of previous estimates	(83,000)	1,000	85,000	5,000	42,000	34,000
Production	(211,000)	(10,000)	(167,000)	(13,000)	(152,000)	(13,000)
Proved reserves, end of year	2,387,000	253,000	2,154,000	261,000	2,047,000	266,000

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)
1997	1,640,000	253,000
1996	1,366,000	261,000
1995	1,292,000	266,000

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

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

future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

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

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

Presented below is the standardized measure of discounted future net cash flows as of December 31, 1997, 1996 and 1995:

	1997	1996	1995
Future cash inflows	\$ 33,521,000	\$ 46,708,000	\$ 30,628,000
Future production costs	(13,602,000)	(17,419,000)	(13,369,000)
Future development costs	(3,495,000)	(3,078,000)	(2,993,000)
Future income tax expense	(5,318,000)	(7,385,000)	(3,423,000)
 Future net cash flows	 11,106,000	 18,826,000	 10,843,000
 Less effect of a 10% discount factor	 (4,587,000)	 (7,380,000)	 (4,381,000)
 Standardized measure of discounted future net cash flows relating to proved reserves	 \$ 6,519,000	 \$ 11,446,000	 \$ 6,462,000

The principal sources of change in the standardized measure of discounted future net cash flows are as follows for the years ended December 31, 1997, 1996 and 1995:

	1997	1996	1995
Standardized measure, beginning of year	\$ 11,446,000	\$ 6,462,000	\$ 4,280,000
 Sales of oil and gas produced, net of production costs	 (2,090,000)	 (1,985,000)	 (1,234,000)
 Net changes in prices and production costs	 (6,612,000)	 6,452,000	 2,256,000
 Purchases of reserves-in-place	 1,000	 121,000	 436,000
 Sales of reserves-in-place	 (120,000)	 --	 --
 Extensions, discoveries and other additions, less related costs	 2,654,000	 1,369,000	 2,203,000

Revisions of previous quantity estimates and other	(713,000)	1,209,000	599,000
Development costs incurred during the year and changes in estimated future development costs	(1,011,000)	(582,000)	(1,415,000)
Accretion of discount	1,595,000	850,000	514,000
Net change in income taxes	1,369,000	(2,450,000)	(1,177,000)
Standardized measure, end of year	\$ 6,519,000	\$ 11,446,000	\$ 6,462,000

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.

Dated: March 27, 1998

GEORESOURCES, INC. (the "Registrant")
/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	3/27/98
/s/ Cathy Kruse Cathy Kruse	Secretary/Treasurer and Director	3/27/98

/s/ Dennis Hoffelt Dennis Hoffelt	Director	3/27/98
/s/ Joseph V. Montalban Joseph V. Montalban	Director	3/27/98
/s/ Paul A. Krile Paul A. Krile	Director	3/27/98

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

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

EXHIBIT INDEX
FOR
Form 10-K for 1997 fiscal year.

Exhibit	Page Number in Sequential Numbering of all Form 10-K and Exhibit Pages
3.1 Registrant's Bylaws, as amended, November 30, 1994	*
3.2 Registrant's Articles of Incorporation, as amended to date, incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K for fiscal year, 1983	*
10.1 Mining Lease and Agreement dated April 6, 1988, by and between Roger C. Ryan, Susan Ryan, Constance Ryan, Charlotte McConnell and Joseph W. Ryan as Lessors, and GeoResources, Inc. as Lessee incorporated by reference to Exhibit 10.4 of Registrant's Form 10-Q for fiscal quarter ended March 31, 1988	*
10.2 Credit Agreement dated January 24, 1989, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.25 of the Registrant's Form 10-K for fiscal year, 1988	*
10.3 Promissory Note dated January 24, 1989, by and between GeoResources, Inc., as Borrower and Norwest Bank Billings, incorporated by reference to Exhibit 10.26 of the Registrant's Form 10-K for fiscal year, 1988	*

- 10.4 Combination Mortgage, Security Agreement and Fixture Financing Statement dated January 24, 1989, by and between GeoResources, Inc., as Mortgagor/Debtor and Norwest Bank Billings, as Mortgagee/Secured party, incorporated by reference to Exhibit 10.27 of the Registrant's Form 10-K for fiscal year, 1988 *
- 10.5 Mortgage, Security Agreement, Assignment of Production and Financing Statement dated January 24, 1989, by and between GeoResources, Inc., as Mortgagor/Debtor and Norwest Bank Billings, as Mortgagee/Secured party, incorporated by reference to Exhibit 10.28 of the Registrant's Form 10-K for fiscal year, 1988 *
- 10.6 Modification of Note of January 24, 1989, by and between Norwest Bank Billings and GeoResources, Inc., effective January 2, 1992, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended March 31, 1992 *
- 10.7 License Agreement dated March 22, 1993, by and between GeoResources, Inc. and Central Arizona Material Co., incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended March 31, 1993 *
- 10.8 Secured Form Loan and Revolving Credit Agreement dated April 29, 1993, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.1 of the Registrant's Form 10-Q for fiscal quarter ended June 30, 1993 *
- 10.9 Mortgage, Security Agreement, Assignment of Production and Financing Statement dated April 29, 1993, by and between GeoResources, Inc., as Mortgagor and Norwest Bank Billings, as Mortgagee, incorporated by reference to Exhibit 10.2 of the Registrant's Form 10-Q for fiscal quarter ended June 30, 1993 *
- 10.10 The Registrant's 1993 Employees' Incentive Stock Option Plan, incorporated by reference as Exhibit A to the Registrant's definitive Proxy Statement dated May 5, 1993 *
- 10.11 Amended and Restated Secured Term Loan and Revolving Credit Agreement made as of September 1, 1995, by and between GeoResources, Inc. and

10.12	First Amendment of Mortgage, Security Agreement, Assignment of Production and Financing Statement and Mortgage - Collateral Real Estate Mortgage dated September 1, 1995, by and between GeoResources, Inc. and Norwest Bank Montana	*
10.13	Commercial Installment Note with addendum dated February 1, 1997, by and between GeoResources, Inc. and Norwest Bank Billings, incorporated by reference to Exhibit 10.13 of Registrant's Form 10-K for fiscal year ended December 31, 1997	*
10.14	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.	54
10.15	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.	196
27	Financial Data Schedule	

PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

between

GEORESOURCES, INC.,

and

KOCH PRODUCER SERVICES, INC.

Dated as of December 3, 1997

TABLE OF CONTENTS

		Page
Section 1	Defined Terms	1
Section 2	Agreement of Sale and Purchase	1
Section 3	Representations and Warranties of Seller	2
Section 4	Representations and Warranties of Purchaser	6
Section 5	Covenants	6
Section 6	Closing Date and Place	16
Section 7	Transactions on and After the Closing Date	16
Section 8	Audit	16
Section 9	Obligations Absolute	17
Section 10	Conditions to Obligations of Parties	17
Section 11	Conditions to Obligations of Seller	17
Section 12	Conditions to Obligations of Purchaser	18
Section 13	Recording	19
Section 14	Amendments to Financings, etc.	20
Section 15	Remedies of Purchaser	20
Section 16	No Recourse	23

Section 17	Notices	23
Section 18	Expenses	24
Section 19	Survival	25
Section 20	Successors and Assigns	25
Section 21	Interest on Unpaid Amounts	25
Section 22	Maximum Interest	26
Section 23	Miscellaneous Provisions	27
Section 24	Section Captions	27
Section 25	Indemnity	27
Section 26	Servicer	28
Section 27	Right of First Refusal	28
Section 28	Choice of Law	29
Section 29	Forum Selection and Consent to Jurisdiction	29
Section 30	Waiver of Jury Trial	29
Section 31	No Oral Agreements	30

Annexes and Schedules to Conveyance

Annex I	-	Form of Conveyance of Volumetric Production Payment
Annex II	-	List of Subject Interests For Title Opinions
Annex III	-	Form of Monthly Hydrocarbons Report
Annex IV	-	Wire Transfer Instructions for Purchase
Annex V	-	[Intentionally Omitted]
Annex VI	-	Insurance
Annex VII	-	Definitions
Annex VIII	-	Form of Purchaser's Monthly Report
Schedule I	-	Quality Standards
Schedule II	-	Exceptions to Representation
Schedule III	-	Plan of Development

PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

THIS PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT, dated as of December 3, 1997 (herein, as the same may be amended or modified from time to

time, called this "Agreement" or this "Purchase Agreement"), is entered into between GEORESOURCES, INC., a Colorado corporation (herein called "Seller"), and KOCH PRODUCER SERVICES, INC., a Delaware corporation (herein called "Purchaser").

W I T N E S S E T H:

WHEREAS, Seller owns certain oil and gas leasehold and other interests located in the State of North Dakota (which leasehold and other interests are more specifically described and defined in the Conveyance (as hereinafter defined)); and

WHEREAS, Seller intends, upon the terms and conditions set forth below, to sell and convey to Purchaser a production payment (herein called the "Production Payment") of certain volumes of Oil produced from the Subject Interests and all rights to receive proceeds of the sale of such production, and Purchaser intends to purchase the Production Payment upon such terms and conditions, such Production Payment to be sold and conveyed to be substantially as described in the form of the Conveyance of Volumetric Production Payment annexed hereto as Annex I (herein called the "Conveyance"):

NOW THEREFORE, in consideration of the premises and the mutual promises and agreements herein contained, the sufficiency of which is hereby acknowledged, it is agreed as follows:

Section 1 Defined Terms. For purposes of this Agreement, unless the context shall otherwise require, all undefined capitalized terms shall be used herein with the same meaning as assigned to such term in Annex VII hereto.

Section 2 Agreement of Sale and Purchase. Subject to the terms and conditions of this Agreement, Seller agrees to sell and Purchaser agrees to buy the Production Payment for a total purchase price of \$364,550 (the "Purchase Price"). Consummation of the sale and purchase (herein called the "Closing") shall be on the date provided for closing (herein called the "Closing Date") in Section 6 hereof. Seller intends to sell to an affiliate of Purchaser (the "Oil Buyer") the Residual Hydrocarbons pursuant to that certain Crude Oil Purchase Agreement, dated as of December 2, 1997 (the "Crude Oil Purchase Agreement"), at the price and other terms in effect at the time of delivery in accordance with the terms of such Crude Oil Purchase Agreement. Seller shall pay Purchaser a structuring fee of \$3,646, to be paid out of the funds payable to Seller at Closing.

Section 3 Representations and Warranties of Seller. Seller represents and warrants (which representations and warranties shall survive execution, delivery and termination of the Conveyance) that except as set forth on Schedule II:

(a) Seller has the full legal power, right and capacity to enter into and perform this Agreement, the Conveyance and the other Production Payment Documents and to sell and convey the Production Payment. The consummation of

the transactions contemplated by this Agreement, the Conveyance, and the other Production Payment Documents are within Seller's corporate powers, have received all necessary governmental and other approvals, exemptions, authorizations, licenses and permits (if any shall be required), and do not and will not contravene or conflict with any provision of any law, rule, regulation, order, writ, judgment, decree, determination or award presently in effect having applicability to Seller, and do not and will not result in the breach or termination of any provision of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which Seller is a party or by which Seller or his properties may be bound, including, without limitation, any confidentiality agreement or restrictions or disclosure of information.

(b) This Agreement and the other Production Payment Documents have been duly executed and delivered and constitute the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with their terms, except as enforcement may be limited by bankruptcy, reorganization, insolvency, moratorium or other laws affecting the enforcement of creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law).

(c) No authorization, consent or approval, or any formal exemption, of any governmental body or regulatory authority (federal, state or local) is or will be necessary to the valid execution, delivery or performance by Seller of this Agreement or the other Production Payment Documents.

(d) Seller has not received any notice of default and to Seller's knowledge after due investigation, is not in default in any material respect under and has not breached in any material respect (i) any order, writ, injunction or decree of any court or of any commission or other administrative agency, or (ii) any material agreement or obligation to which Seller is a party or by which Seller is bound, or to which Seller may be subject, or affecting the Subject Interests or any portion thereof.

(e) There are no actions, suits or proceedings by or before any court, arbitrator or any governmental commission, board, bureau or other administrative agency pending, or to the knowledge of Seller threatened, against Seller or any of the Subject Interests.

(f) The descriptions attached to the Conveyance as Exhibit A completely and correctly describe the Subject Interests, and Seller's ownership of the Subject Interests entitles Seller to a share of all Hydrocarbons produced from or attributable to the Oil and gas leases located on or under any of the lands described in Exhibit A to the Conveyance, and of the proceeds of such production, after giving effect to and/or deducting all applicable royalties, overriding royalties and other burdens or payments out of production (except the Production Payment), which is not less than the respective net revenue interests identified on Exhibit A to the Conveyance and obligates Seller to pay a share of all costs of operation and development of such Oil and gas leases which is not greater than the respective working

interests identified on Exhibit A to the Conveyance. Seller has good and defensible title to the Subject Interests free and clear of any mortgage, pledge, title retention lien, or other lien, encumbrance or security interest, except for Permitted Liens. The Conveyance will assign to Purchaser good and defensible title to the Production Payment free and clear of any mortgage, pledge, title retention lien, or other lien, encumbrance or security interest, except for Permitted Liens. Each lease and other interest in the Subject Interests and the Production Payment is valid and in full force and effect, all taxes, rentals, royalties and other amounts in respect thereof have been paid and no default has occurred in respect of any such lease or interest which would have a material adverse effect on the Production Payment.

(g) There are no preferential purchase rights, calls, rights of first refusal or other similar rights or agreements in effect relating to any of the Subject Interests.

(h) No Subject Interest is subject to a balancing, take-or-pay/make-up or other arrangement under which one or more third parties may take a portion of the Subject Interest Hydrocarbons without full payment therefore, in cash or immediately available funds at the market price or value thereof, as a result of Hydrocarbons having been taken from, or as a result of other actions or inactions with respect to, the Subject Interests or other properties which could reasonably be expected to have a material adverse effect on the Production Payment.

(i) Seller has incurred no obligation or liability, contingent or otherwise, for brokers' or finders' fees in respect of the matters provided for in this Agreement.

(j) Seller has, to his knowledge after due investigation, complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, having jurisdiction over the conduct of his businesses or any of his properties, including, but not limited to, the Subject Interests. Seller has not received any notice to the effect that Seller, his operations or his properties, including, but not limited to, the Subject Interests, are not in material compliance with any of the requirements of applicable Environmental Laws, or are the subject of any federal or state investigations evaluating whether any remedial action is needed to respond to a Release of any Hazardous Material, whether from his properties, including, but not limited to, the Subject Interests, or elsewhere.

(k) Except as disclosed in writing to Purchaser prior to the date hereof, to the best of Seller's knowledge after due investigation, (i) all of the Subject Interests and associated facilities operated by Seller have been, and continue to be, owned, leased or operated by Seller in compliance with all Environmental Laws; (ii) there have been no past, and there are no pending or threatened claims, complaints, notices or inquiries to, or requests for information received by, or known to Seller with respect to any alleged violation of any Environmental Law; (iii) there are no pending or threatened claims, complaints, notices or inquiries to, or requests for information

received by, or known to Seller for potential liability under any Environmental Law or under any common law theories relating to operations or the condition of any of the lands comprising the Subject Interests (including underlying groundwater); (iv) there has been no Release of Hazardous Materials at, on or under any of the lands comprising the Subject Interests; (v) Seller has been issued and is in material compliance with all permits, certificates, approvals, licenses and other authorizations relating to environmental matters and necessary or desirable for his business and the operation of each of the Subject Interests; (vi) none of the lands comprising the Subject Interests or any portion of any thereof are listed or proposed for listing on the National Priorities List pursuant to CERCLA, on the Comprehensive Environmental Response Compensation Liability Information System List ("CERCLIS") or on any other federal or state list of sites requiring investigation or clean-up; (vii) there are no underground storage tanks, active or abandoned, including petroleum storage tanks, on or under any of the lands comprising the Subject Interests; (viii) Seller has not directly transported or directly arranged for the transportation of any Hazardous Material (except crude oil and/or natural gas sold in the ordinary course of business which has not created any material liability or obligation of Seller) to any location which is listed or proposed for listing on the National Priorities List pursuant to CERCLA, on the CERCLIS or on any federal or state list or which is the subject of any federal, state or local enforcement action or other investigation which may lead to material claims against Seller or any portion of any of the Subject Interests for any remedial work, damage to natural resources or personal injury, including claims under CERCLA; (ix) there are no polychlorinated biphenyls, radioactive materials or friable asbestos present at any of the lands comprising the Subject Interests; and (x) no condition exists at, on, under or in respect of any of the lands comprising the Subject Interests or any portion of any thereof which, with the passage of time, or the giving of notice or both, would give rise to material liability under any Environmental Law.

Notwithstanding the foregoing, (a) Seller has made no inquiry concerning the various prior surface owners and operators or prior operators of the lands comprising the Subject Interests regarding the possible existence of any storage tanks, polychlorinated biphenyls, radioactive materials or friable asbestos or other conditions resulting from surface operations or oil and gas operations before Seller owned or operated the respective Subject Interests, and Seller shall have no liability to Purchaser for breach of the foregoing representation as a result of the existence of any storage tanks, polychlorinated biphenyls, radioactive materials, friable asbestos or other conditions resulting from surface operations or oil and gas operations before Seller owned or operated the respective Subject Interests, and (b) there may be some Naturally Occurring Radioactive Materials (NORM) produced as a result of operations of the Subject Interests, but such NORM is being handled in accordance with applicable regulations.

(l) [Intentionally omitted].

(m) All material factual information heretofore or contemporaneously furnished by or on behalf of Seller to Purchaser for purposes of or in connection with this Agreement or the other Production Payment Documents or any transaction contemplated hereby or thereby, including, but not limited to,

factual data supporting any reserve reports and financial statements, is, true, correct and accurate on the date as of which such information is dated or certified and does not contain any material misstatement of fact or omit to state a material fact or any fact necessary to make the statements contained therein not misleading, and all estimated material so furnished was prepared on the basis of assumptions, data, information, tests or conditions believed to be valid or accurate or to exist at the time such material was prepared and so furnished.

(n) Each Oil and gas lease and other interest described in Exhibit A to the Conveyance is valid and subsisting and in full force and effect, insofar as it covers or relates to the interests in land referred to or described in Exhibit A thereto as covered thereby; all material agreements, contracts, leases, permits, easements, rights-of-way, and other surface use rights necessary to own, maintain and operate such oil and gas leases are in full force and effect and to the knowledge of Seller after due investigation, no material breach or default exists thereunder.

(o) To the knowledge of Seller after due investigation, all rentals, royalties and taxes and other amounts due and payable under or in respect of said Oil and gas leases and other interests, or any of them, have been duly paid or provided for. No material default or event of default now exists under any of said leases and other interests and Seller has received no notice of any default or event of default or breach or claimed default or breach in respect of any thereof.

(p) Seller is not obligated, by virtue of any prepayment made under any "take-or-pay" clause or under any similar arrangement, to deliver Subject Hydrocarbons at some future time without then receiving full payment therefore at the market price or value thereof.

(q) The production of all Hydrocarbons which have heretofore been produced from the Subject Interests has not been in excess of allowable production quotas allowed or permitted to the Subject Interests by any applicable regulatory authority so as to subject, after the Effective Date, any well located thereon, or Purchaser's interest in the production therefrom, to restrictions or penalties on allowables for overproduction.

(r) Except for contracts which may be terminated on not more than 90 days prior notice, and the sales contracts contemplated by this Agreement, none of the Subject Hydrocarbons are committed or dedicated to any contract or agreement regarding the sale or use thereof, other than as described in Exhibit A to the Conveyance.

(s) None of the Subject Interests or any of the Subject Hydrocarbons is subject to, or encumbered by, any balancing, deferred production, hydrocarbon banking or similar arrangement.

(t) The Subject Interests include and cover all of the properties, rights and interests of Seller for which oil and gas reserves and the future

production and revenues therefrom were estimated and projected in (i) those certain internal reports by Purchaser, dated October, 1997, which have heretofore been delivered by Purchaser to Seller and reviewed by Seller, and (ii) that certain report by Broschat Engineering and Management Services, dated October 7, 1997, which has heretofore been delivered by Seller to Purchaser.

Section 4 Representations and Warranties of Purchaser. Purchaser represents and warrants to Seller that:

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, has the power to carry on its business as it is now being conducted and is duly qualified to do business and in good standing in all states where such qualification is necessary and where failure to be so qualified or in good standing would have a material adverse effect on its business or financial condition.

(b) The consummation of the transactions contemplated by this Agreement and the other Production Payment Documents are within Purchaser's corporate powers, have been duly authorized by all necessary corporate action, and do not and will not contravene or conflict with any provision of the articles of incorporation or bylaws of Purchaser, and do not and will not result in the breach or termination of any term or provision of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which Purchaser is a party or by which it or its properties may be bound.

(c) Purchaser has incurred no obligation or liability, contingent or otherwise, for brokers' or finders' fees in respect of the matters provided for in this Agreement which could result in: (i) a lien on any of the Subject Interests or (ii) any obligation or liability of Seller.

Section 5 Covenants.

(a) Covenants Pending Closing. From and after the date of this Agreement until the Closing Date, Seller will:

(i) not, without the prior written consent of Purchaser and except for the sale of the Production Payment and the Residual Hydrocarbons to Purchaser (or an affiliate of Purchaser) and the sale of Hydrocarbons and gas severed before the Effective Date, enter into any agreement selling, transferring or encumbering the Subject Interests or any part thereof or interest therein;

(ii) not, without the prior written consent of Purchaser, create or permit to exist any mortgage, pledge, title retention lien, or other lien, encumbrance or security interest with respect to any of the Subject Interests except the Permitted Liens;

(iii) cause the Subject Interests to be maintained, developed,

protected against drainage, and continuously operated for the production of Hydrocarbons in a good and workmanlike manner, as would a prudent operator, all in accordance with generally accepted practices, applicable operating agreements, and all applicable federal, state and local laws, rules and regulations (including, without limitation, all Environmental Laws), excepting those being contested in good faith;

(iv) give prompt notice to Purchaser of any notice of default received by Seller on or subsequent to the date of this Agreement under any instrument or agreement relating to the Subject Interests to which Seller is a party or by which Seller is bound; and

(v) furnish Purchaser promptly with such additional internal reports and engineering studies on the Subject Interests with respect to oil reserves, projections of the rate of production and net operating income, gross proceeds and prices received by Seller from the sale of oil and incremental drilling, acquisition activity and other operations, as Purchaser may reasonably request.

(b) Undertaking. Subject to events of Force Majeure, Seller hereby unconditionally and irrevocably undertakes to diligently and timely perform and observe all of the covenants to be performed or observed by Seller under the Conveyance.

(c) Taking in Kind. The Production Payment Hydrocarbons shall be delivered to Purchaser in kind or to the credit of Purchaser, free of cost, at the Delivery Points in accordance with the Conveyance. Seller agrees to so deliver Production Payment Hydrocarbons consisting of Oil prior to delivery of other Subject Hydrocarbons, and Purchaser and Seller agree to allocate all Hydrocarbons produced from the Subject Interests in accordance with Section 2.1 and Section 3 of the Conveyance and the definitions in Annex VII of this Purchase Agreement.

(d) Gathering and Transportation and Other Services. Seller at his sole cost and expense shall gather or cause to be gathered all Production Payment Hydrocarbons and Residual Hydrocarbons at the wellheads where produced and shall transport and deliver the same to the Delivery Points, without any charge or deduction to Purchaser for any costs attributable to preparing the Hydrocarbons for delivery, and delivering same to the Delivery Points.

(e) Material Negative Reservoir Event. Seller shall notify Purchaser promptly after becoming aware that any event or circumstance which has occurred or exists could reasonably be expected to become or constitute a Material Negative Reservoir Event.

(f) Reports. Seller shall furnish or cause to be furnished to Purchaser copies of the following information and agrees that Purchaser can furnish copies of such information and any other information Purchaser obtains under or pursuant to or in connection with this Agreement, any of the other Production Payment Documents, or the Subject Interests, to the Servicer and to any purchaser of Subject Hydrocarbons from Purchaser, provided however, that

Seller may require any Person receiving such data to sign a reasonable confidentiality agreement prior to receiving such data:

(i) As soon as available and in any event within 90 days after each calendar year ending December 31 (commencing December 31, 1997), consolidated audited financial statements of Seller, including, without limitation, a consolidated balance sheet as of the end of such annual period and consolidated statements of earnings and cash flow of Seller for such annual period, prepared in accordance with GAAP;

(ii) As soon as available and in any event within 45 days after each calendar quarter (commencing March 31, 1998), consolidated financial statements of Seller, including, without limitation, a consolidated balance sheet as of the end of such calendar quarter and consolidated statements of earnings and cash flow of Seller for such calendar quarter, prepared in accordance with GAAP;

(iii) At such times as may be reasonably requested by Purchaser, but not more often than twice annually, reports concerning any material change in methods of treatment or operation of all or any wells on Subject Interests and production of Subject Hydrocarbons, any drilling or development, any method of secondary or tertiary recovery, or any other action with respect to the Subject Interests, the decision as to which may increase or reduce the quantity of Hydrocarbons ultimately recoverable from the Subject Interests, or the rate of production therefrom, or which may shorten or lengthen the period of time required for liquidation of the Production Payment;

(iv) As from time to time reasonably requested by Purchaser, but not more often than twice annually, copies of maps showing property lines and well locations, well logs, core analysis, flow and pressure tests, natural gas analysis and casing programs and other technical information related to the Subject Interests and the wells thereon and the production therefrom; provided that Seller shall only be required to give Purchaser access (not copies) during normal business hours to any such material which is subject to a confidentiality agreement or license in effect on the date hereof which prohibits Seller from delivering a copy of such information to Purchaser, or interpretative data which Seller reasonably deems to be proprietary and confidential, and Seller may require Purchaser and its representatives and designees to sign reasonable confidentiality agreements restricting their use of any such proprietary or confidential interpretive information in competition against Seller;

(v) Together with the delivery of the financial statements delivered pursuant to the foregoing clauses (i) or (ii) of this Section 5(f), a certificate executed by Seller certifying that to his knowledge after due investigation, Seller is in compliance in all material respects with the covenants within this Agreement and the Conveyance, or if not, specifying any exceptions thereto in reasonable detail;

(vi) Promptly after December 31 of each calendar year (commencing December 31, 1997), and in any event not later than March 15 of each calendar year, reports in form and substance satisfactory to Purchaser and using pricing, engineering and other assumptions acceptable to Purchaser, prepared by independent petroleum engineers acceptable to Purchaser (it being agreed for purposes hereof that Broschat Engineering and Management Services is acceptable) as of December 31 of the preceding calendar year concerning (a) the quantity of Subject Hydrocarbons recoverable from the Subject Interests, (b) the projected income and expense attributable to the Subject Interests, (c) such other customary reserve information, technical or otherwise, as Purchaser may reasonably request including a discussion of the materials reviewed in preparing such report and all written opinions prepared, if any, regarding the Subject Interests or any portion thereof (the "Independent Reserve Report"); and

(vii) As soon as available and in any event within 45 days after the end of each month, a Monthly Hydrocarbons Report in substantially the form attached hereto as Annex III, in form and substance satisfactory to Purchaser.

(viii) Immediately, notice of the occurrence of any Event of Default or any other default under any material agreement entered into by Seller.

(g) Use of Proceeds. Seller shall not use the Production Payment or proceeds therefrom to pay any cost, expense or otherwise except in connection with Seller's oil and gas exploration, development and production business.

(h) Tangible Net Worth. The parties signing this Agreement as Seller will not at any time permit their aggregate Tangible Net Worth to be less than \$3,500,000. As used herein, "Tangible Net Worth" means the consolidated net worth of Seller after subtracting therefrom the aggregate amount of any intangible assets of Seller, including goodwill, franchises, licenses, patents, trademarks, trade names, copyrights, service marks and brand names.

(i) Indebtedness. Except with the consent of Purchaser, which consent will not be unreasonably withheld, Seller will not create, incur, assume or suffer to exist or otherwise become or be liable in respect of any Indebtedness related to or in connection with the Subject Interests, other than, without duplication, (a) Indebtedness in respect of the Production Payment pursuant to this Agreement and the other Production Payment Documents; (b) unsecured Indebtedness incurred in the ordinary course of business (including open accounts extended by suppliers on normal trade terms in connection with purchases or furnishing of goods and services, but excluding Indebtedness incurred through the borrowing of money or Contingent Liabilities); (c) Indebtedness secured by assets other than the Subject Interests; or (d) Indebtedness in respect of or in connection with Taxes and Fees.

(j) Loans. Seller shall not use the proceeds from the sale of the

Production Payment to make any loans or advance any monies to any employee, consultant or agent of Seller.

(k) Insurance. Seller will maintain with financially sound and reputable insurance companies such insurance in amount and type and against such risks, liabilities, casualties and contingencies as is maintained by prudent Persons in the industry (and which property insurance shall name Purchaser as an additional insured as its interest may appear and shall contain endorsements to such policies providing that the insurer will notify Purchaser not less than 30 days prior to the expiration or termination of such policies), including, without limitation, (1) the insurance set forth in Annex VI hereto and (2) to the extent such insurance is carried by others engaged in similar undertakings in the same general area or areas in which the Subject Interests are located, insurance on all personal property and fixtures used in connection with the operation of the Subject Interests, against loss or damage by fire, lightning, hail, tornado, explosion, hurricane and other similar risks. Seller shall furnish or cause to be furnished to Purchaser prior to the Closing Date and, upon the request of Purchaser, from time to time thereafter, a summary of the insurance coverage of Seller in form and substance satisfactory to Purchaser in its sole discretion and copies of all applicable insurance policies.

(l) Accounting Principles. Seller will prepare all reports and computations required under this Agreement or the other Production Payment Documents, all in accordance with generally accepted accounting principles ("GAAP") which are customary and acceptable in the oil and gas exploration and production industry for corporations using full cost accounting methods. Seller will keep and maintain all books, records and other information pertaining to Seller or the Subject Interests, and provide such other information as Purchaser may request from time to time in accordance with accurate accounting standards customary and acceptable in the oil and gas exploration and production industry for companies using full cost accounting methods.

(m) Other Agreements. Seller will not enter into any agreement containing any provision which would be violated or breached by the performance of his obligations hereunder or under any instrument or document delivered or to be delivered by Seller hereunder or in connection herewith.

(n) Plan of Development. Except as may otherwise be approved by Purchaser, in its sole and absolute discretion, Seller shall comply with, and perform any and all obligations and actions set forth in, the terms and provisions of the Plan of Development.

(o) Early Delivery. Without the prior written consent of Purchaser, Seller shall not deliver to Purchaser any volume of Production Payment Hydrocarbons prior to the scheduled delivery date set forth in the Production Schedule. In no event shall either Seller or Purchaser have any obligation to consent to early delivery of Production Payment Hydrocarbons.

(p) Taxes.

(i) Seller shall pay, promptly when due, except as contested in good faith and by appropriate proceedings, together with interest and penalties thereon, if any, all taxes owed by Seller (whether by operation of law or pursuant to this Agreement), including those set forth below:

A. All ad valorem taxes (or taxes imposed in lieu thereof) imposed upon or assessed with respect to or charged against the Production Payment or upon the Subject Interests or the Subject Hydrocarbons or the Production Payment or the Production Payment Hydrocarbons, or against Purchaser by reason of its ownership of the Production Payment (other than any taxes imposed upon or assessed with respect to the net income of Purchaser and any franchise taxes of Purchaser);

B. All Production Taxes imposed upon or with respect to or measured by or charged against the Production Payment or the Production Payment Hydrocarbons; and;

C. All other taxes, duties, imposts, charges, levies and assessments of any kind or nature whatsoever, imposed upon or assessed with respect to or charged against the Production Payment, or upon the Subject Interests or the Subject Hydrocarbons or the Production Payment Hydrocarbons, or against Purchaser by reason of its ownership of the Production Payment or otherwise (other than any taxes levied on the net income of Purchaser and franchise taxes of Purchaser);

(ii) Notwithstanding the foregoing, Seller shall not be responsible or liable to Purchaser for, and there shall not be included in the Makeup Volume Balance or otherwise, amounts in respect of any taxes associated with the handling, transportation, refining, purchase or sale of Production Payment Hydrocarbons after they have been delivered to Purchaser or to Oil Buyer or another transporter for the credit of Purchaser.

(iii) Unless the parties agree in writing otherwise, severance taxes shall be remitted to the State by the Oil Buyer, who shall purchase severed Hydrocarbons under the Crude Oil Purchase Agreement, and Seller shall not be liable or responsible under this Purchase Agreement or the Conveyance for any penalties, interest or other costs, expenses or liability (except for the principal tax liability itself) arising out of any default by the Oil Buyer in making a proper remittance of severance taxes, unless such default shall have been caused by a material error or omission of Seller.

(iv) Purchaser shall promptly provide Seller, or Seller's designee, with statements, notices and other information received by Purchaser regarding ad valorem taxes assessed against Purchaser's interest which Seller is obligated to pay on behalf of Purchaser, as set

forth in this Purchase Agreement or the Conveyance, and Seller shall not be liable or responsible under this Purchase Agreement or the Conveyance for any failure to pay taxes for which it did not receive proper and timely notice, or for any increased taxes, penalties or interest owed as a result of Purchaser's failure to promptly provide Seller or Seller's designee with such tax statements, notices or other information.

(q) Delivery to Purchaser. The Production Payment Hydrocarbons shall be delivered at the sole cost of Seller to Purchaser, or to the credit of Purchaser, into the facilities of Purchaser or its designee at the Delivery Points (or, with Seller's and Purchaser's prior mutual consent in their discretion, the Alternate Delivery Points). As between Seller and Purchaser, Seller shall be in exclusive control and possession of the Production Payment Hydrocarbons deliverable under the Conveyance and responsible for any loss, damage or injury caused thereby until the same shall have been delivered to Purchaser at the Delivery Point(s) or Alternate Delivery Point(s), as the case may be, after which delivery Purchaser shall be deemed to be in exclusive control and possession thereof and responsible for any loss, injury or damage caused thereby.

(r) Operation of Subject Interests. So long as the Production Payment shall remain in force, Seller shall, as an independent contractor and at Seller's own cost and expense:

(i) Cause the Subject Interests to be maintained and continuously operated for the production of Hydrocarbons in a good and workmanlike manner, as would a prudent operator (without regard to the existence of the Production Payment), all in accordance with generally accepted practices in all material respects, applicable operating agreements, and applicable federal, state and local laws, rules and regulations (including, without limitation, all Environmental Laws), excepting those being contested in good faith;

(ii) Pay, or cause to be paid, promptly as and when due and payable, (A) all rentals, royalties and proceeds payable to the other mineral interest owners in respect of the Subject Interests or the Subject Hydrocarbons, excepting those being contested in good faith and (B) all Production Expenses incurred in or arising from the operation or development of the Subject Interests, or the producing, treating, gathering, or storing, of the Subject Hydrocarbons; excepting those being contested in good faith or those not yet payable in the ordinary course of business;

(iii) Cause machinery, equipment and facilities necessary for the production of the Production Payment Hydrocarbons to be kept in effective operating condition as would a prudent operator (without regard to the existence of the Production Payment) and cause necessary repairs, renovations or replacements thereof or thereto to be promptly made;

(iv) Give or cause to be given to Purchaser written notice of

every adverse claim or demand made by any Person (other than the Purchaser or the Oil Buyer) affecting the Subject Interests or the Subject Hydrocarbons which could have a material adverse effect on the Production Payment or any portion thereof or on Seller, and of any suit or other legal proceeding instituted with respect thereto, and cause necessary steps to be taken with reasonable diligence to protect and defend the Subject Interests and the Subject Hydrocarbons against any such adverse claim or demand which could have a material adverse effect on the Production Payment, or any portion thereof, or Seller, including (but not limited to) the employment of counsel for the prosecution or defense of litigation;

(v) Cause the Subject Interests to be kept free and clear of liens, other than Permitted Liens;

(s) Access to Subject Interests. Seller will permit the duly authorized representatives of Purchaser at reasonable times and upon reasonable notice, but at Purchaser's sole risk and expense, to make such inspection of the Subject Interests and the machinery, equipment and facilities used in the operation thereof as such representatives shall deem proper. Seller may have one or more representatives accompany Purchaser's representatives during such inspection.

(t) Certain Notices. During the term hereof, Seller will not change his name, identity, principal place of business or the office where Seller keeps his books and records concerning the Production Payment, the Production Sale Contracts and the contract rights and accounts now existing or hereafter arising in connection therewith without notifying Purchaser of any such change at least 30 days prior to the effective date of such change.

(u) Further Assurances and Warranty. Seller and Purchaser will execute and deliver all such other and additional instruments, notices, releases and other documents and will do all such other acts and things as may be necessary or appropriate more fully to assign to each other party or its successors or assigns all of the respective rights and interests herein and hereby granted or intended so to be. Seller will warrant and forever defend the Production Payment unto Purchaser, its successors and assigns, against every person whomsoever now or at any time hereafter lawfully claiming the same or any part thereof.

(v) Measurement and Quality.

(i) Measurement of the volume of Production Payment Hydrocarbons delivered under the Conveyance shall be made at the existing metering points at the Delivery Points or Alternate Delivery Points, determined in accordance with the Crude Oil Purchase Agreement referenced in Section 2 above.

(ii) All Production Payment Hydrocarbons delivered to Purchaser, or to Purchaser's credit, shall satisfy the Quality Standards. All costs and expenses of treating the Hydrocarbons to satisfy the Quality

Standards shall be borne and paid by Seller, provided however, that Seller's only liability for delivery of any Hydrocarbons which do not meet the Quality Standards shall be for the Quality Adjustment Amount within the Make-Up Volume Balance, and Seller shall not be personally liable to Purchaser for any such amounts.

(w) Abandonment of Wellbores or Conduct of Certain Operations. So long as the Production Payment remains in force, Seller shall not, without first obtaining the written consent of Purchaser which consent shall not be unreasonably withheld, (1) abandon any wellbore on the Subject Interests which is capable of producing in paying quantities heretofore or hereafter completed for production of Hydrocarbons on any of the lands described in Exhibit A to the Conveyance; or (2) conduct any work or operation related to any zone, horizon, formation or interval included in the Subject Interests.

For all purposes of this Agreement and of the Conveyance (1) a well shall be deemed to be capable of producing Hydrocarbons "in paying quantities" unless and until there arises a condition, which reasonably appears to be permanent, such that the aggregate value of the Subject Hydrocarbons which are being produced or will be produced from such well (without considering the effect of the Production Payment) no longer exceeds or will not exceed the costs and expenses directly related to the operation and maintenance of such well (excluding indirect office and management overhead and similar charges exceeding \$500 per month).

(x) Mortgage or Transfer or Resignation as Operator of any Subject Interest. So long as the Production Payment remains in force, Seller shall not, without first obtaining the written consent of Purchaser which consent shall not be unreasonably withheld (1) sell, assign, lease, mortgage, hypothecate, pledge, or otherwise transfer Seller's interest in any of the Subject Interests, either in whole or in part, and any purported sale, assignment, lease, mortgage or hypothecation or other transfer in contravention hereof shall be null and void; or (2) resign as operator of any of the Subject Interests operated by Seller unless the successor operator has been approved in writing by Purchaser or, following the occurrence of an Event of Default, Purchaser shall have requested in writing such resignation.

(y) Covenants of Purchaser. Purchaser agrees that:

(i) Purchaser shall not include any expense in excess of \$1,000 within the Expense Amounts in the Make-Up Volume Balance except under the following conditions:

A. Purchaser may incur or pay any reasonable expense and include such expenses within the Expense Amount whenever:

(I) Such expenses are incurred as a part of, or as a consequence of, Purchaser's authorized exercise of remedies after an Event of Default pursuant to Section 15 hereof provided that such expenses are reasonably incurred under the circumstances,

(II) Purchaser's failure to pay or incur such expenses might reasonably be expected to result in civil fines or penalties in excess of \$1,000 or

(III) Purchaser's failure to pay or incur such expenses might reasonably be expected to result in criminal liability of Purchaser or any other Indemnified Party or to criminal fines or penalties.

B. At least 30 days prior to incurrence by Purchaser of any expense in excess of \$1,000 to be included within the Expense Amounts other than an expense pursuant to the foregoing clause (A), Purchaser shall notify Seller in writing of its intention to incur such expense, setting forth in reasonable detail the expenses so intended to be incurred and the date on or after which Purchaser may incur such expenses. If Seller contests the inclusion of any such expenses within the Expense Amount, within such 30 day period, Seller must provide Purchaser with notice of its opposition and reasonable evidence of the payment by Seller of such expenses or any other reasonable basis to support Seller's opposition to inclusion of such amounts within the Expense Amount.

(ii) Purchaser shall not include any taxes, penalties or interest thereon to be within the Tax Amount in the Make-Up Volume Balance except under the following conditions:

A. Seller is obligated to pay such taxes, penalties or interest but has failed to make timely and proper payment of such taxes, and

B. At least 30 days prior to the payment thereof, Purchaser shall notify Seller in writing of its intention to pay such taxes, setting forth in reasonable detail the taxes so intended to be paid and the date on or after which Purchaser may pay such taxes. If Seller contests the inclusion of any such taxes within the Tax Amount, then within such 30 day period, and to prevent the payment thereof by Purchaser, Seller must provide Purchaser with notice of its opposition and reasonable evidence of either:

(I) the payment by Seller of such taxes, penalties or interest; or

(II) Sellers' active contest of the validity, applicability or amount of such tax, penalties or interest in good faith by appropriate proceedings diligently pursued so that ten (10) days have not elapsed following the completion or the abandonment of the contest of same; or

(III) Any other reasonable basis to justify Seller's opposition to payment of such Taxes by Purchaser and the

inclusion of such amounts within the Tax Amount.

(iii) Purchaser shall have no obligation to pay any expenses or taxes, even if it gives Seller the notice provided in this Section.

(iv) Purchaser will provide Seller promptly after its receipt of the Monthly Hydrocarbon Report prepared by Seller a report substantially in the form of Annex VIII attached hereto (the "Purchaser's Monthly Report"); provided, however, Purchaser shall have no liability for its failure to timely deliver Purchaser's Monthly Report and any failure to deliver Purchaser's Monthly Report shall not in any way relieve Seller of its obligation to deliver Production Payment Hydrocarbons pursuant to the Production Payment Documents.

(v) Within 30 days after incurring any costs, expenses or taxes to be included within the Make-Up Volume Balance, Purchaser shall notify Seller of the nature and amount of such cost, expense or taxes and the basis for Purchaser's incurring the same.

Section 6 Closing Date and Place. The Closing shall take place at such time and place as shall be mutually agreed upon.

Section 7 Transactions on and After the Closing Date. On the Closing Date, Seller shall execute and deliver the Conveyance to Purchaser, substantially in the form annexed hereto as Annex I, in such number of counterparts as Purchaser may request together with the other instruments and documents required pursuant to Section 12. Concurrently with such delivery, Purchaser shall make payment of the Purchase Price in immediately available funds by wire transfer as set forth on Annex IV hereto, which payments shall be deemed to constitute payment to Seller of the Purchase Price.

Section 8 Audit. Purchaser and its agents, or consultants shall have the right from time to time during the term of the Conveyance and for 24 calendar months thereafter, at Purchaser's or Oil Buyer's expense, to examine and to audit at any reasonable time the books, records and charts of Seller with respect to the Subject Interests, including, without limitation, all information with respect to volumes of Hydrocarbons produced from the leases, the calculation of Lease Use Hydrocarbons and Non-Consent Hydrocarbons, and the payment by Seller of all costs and expenses incurred in connection with the Subject Interests. This right to audit shall be a free and unrestricted right, and shall survive the termination of the Conveyance; provided that Seller shall not be required to maintain books, records or charts for a period of more than 24 calendar months following the calendar year in which the Production Payment is discharged. If, as a result of any such audit, it is determined that any amount is due Purchaser as a result of the failure of Seller to properly deliver all Production Payment Hydrocarbons, or the proceeds thereof, to Purchaser in accordance with the terms of the Conveyance and this Agreement, Seller shall either (i) pay Purchaser the value of the Production Payment Hydrocarbons or (ii) deliver to Purchaser the Production Payment Hydrocarbons, which Seller failed to deliver, or the proceeds which Seller failed to remit, together with interest at the Specified Rate from the

date that such amount should have been delivered or paid in accordance with the terms of the Conveyance and this Agreement to the date of payment. Upon request, Seller shall also make available to Purchaser for audit purposes any relevant records of Seller's transporter(s) to which Seller has access. A formal audit of accounts shall not be made more often than once each calendar year, and Seller shall have the right to require that a single audit be conducted on behalf of all parties entitled to an audit in any given year. Any inaccuracy will be promptly corrected when discovered; provided, however, that Purchaser shall not have any right to question or contest any charge or credit if the matter is not called to the attention of Seller in writing within 24 calendar months after the end of the calendar year in which the Production Payment is discharged. Notwithstanding the foregoing, the Purchaser and its agents or consultants shall not have the right hereunder to examine or audit the books, records or charts of the Seller which relate to matters other than the Subject Interests and the Production Payment or to examine privileged attorney-client communications or attorney work product.

Section 9 Obligations Absolute. Seller shall employ and have supervision over the personnel required by Seller to perform his services and responsibilities hereunder and Seller shall pay all expenses in connection therewith. The obligations of Seller and Purchaser hereunder shall be absolute and unconditional, it being understood that the obligations of Seller shall be absolute and unconditional under any and all circumstances, subject to events of Force Majeure. Without in any way limiting the foregoing, but subject to Section 26 hereof, Purchaser may, from time to time, without notice to Seller, assign or transfer the benefits of this Agreement; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, each and every immediate and successive assignee or transferee shall, to the extent of the interest of such assignee or transferee in such liabilities, be entitled to the benefits of this Agreement to the same extent as if such assignee or transferee were Purchaser.

Section 10 Conditions to Obligations of Parties. The obligations of each party under this Agreement are subject to the satisfaction (or waiver by both parties) on or prior to the Closing Date of the following conditions:

(a) There shall not have been any legislation enacted or voted by either House of the Congress of the United States of America nor any regulation promulgated by the Secretary of the Treasury or the Internal Revenue Service after the date of this Agreement and prior to the Closing Date which in the judgment of tax counsel for such party would materially adversely affect the income tax consequences to such party of the transactions contemplated by this Agreement.

(b) All necessary permissions, approvals and consents of third parties or governmental agencies, if any, with respect to the sale and transfer of the Production Payment shall have been delivered to the parties hereto.

Section 11 Conditions to Obligations of Seller. The obligations of Seller under this Agreement are subject to the satisfaction (or waiver by Seller) on or prior to the Closing Date of the following additional covenants:

(a) Purchaser shall have performed all agreements and covenants required by this Agreement and the other Production Payment Documents to be performed by it, and all representations and warranties herein made by Purchaser shall be true in all material respects as of the Closing Date, and Seller shall have received a certificate to that effect signed by Purchaser.

(b) Purchaser shall have executed and delivered this Agreement, the Conveyance in substantially the form set forth in Annex I hereto, and all other Production Payment Documents, all in form and substance satisfactory to Seller in its sole discretion.

Section 12 Conditions to Obligations of Purchaser. Obligations of Purchaser under this Agreement are subject to the satisfaction (or waiver by Purchaser) on or prior to the Closing Date of the following additional conditions:

(a) All legal matters in connection with this Agreement and the transaction contemplated hereby shall be acceptable to Purchaser in its sole discretion.

(b) Purchaser shall have received from Seller a certificate, dated the date of Closing Date, of its Secretary as to (i) resolutions of its board of directors then in full force and effect authorizing the execution, delivery and performance of this Purchase Agreement and each other Production Payment Document; (ii) copies of the articles of incorporation of Seller, together with all amendments thereto; (iii) copies of the by-laws of Seller, together with all amendments thereto; (iv) the incumbency and signatories of those of its officers authorized to act with respect to this Purchase Agreement and each other Production Payment Document executed by it, upon which certificate Purchaser may conclusively rely until it shall have received a further certificate of the Secretary of Seller canceling or amending such prior certificate; and (v) copies of certificates of good standing and existence of the Seller in its jurisdiction of incorporation and North Dakota.

(c) Seller shall have obtained all necessary consents, approvals and permits, if any, from all federal and state regulatory agencies, governmental authorities and from any other Persons, in form and substance satisfactory to Purchaser in its sole discretion, Purchaser shall have received copies of all such consents, approvals and permits, and such consents, approvals and permits shall be in full force and effect on the Closing Date, and Purchaser shall have received a certificate to that effect signed by Seller as to matters within Seller's knowledge after due investigation;

(d) Seller shall have performed all agreements and covenants required by this Agreement and by the other Production Payment Documents to be performed by Seller, and all representations and warranties herein and in the other Production Payment Documents made by Seller shall be true and correct as of the Closing Date, and Purchaser shall have received a certificate to that effect signed by Seller as to Seller's knowledge after due investigation.

(e) Seller shall have executed and delivered this Agreement, the Conveyance in substantially the form set forth in Annex I hereto, and all other Production Payment Documents, all in form and substance acceptable to Purchaser in its sole discretion.

(f) Purchaser shall have received financial statements, including, without limitation, a statement of cash flow of Seller, a statement of accounts payable of Seller, and a detailed monthly statement (for prior three (3) month period) of operating expenses and overhead expenses, banking and trade references and credit and other due diligence relating to Seller and the Subject Interests, in form, substance, scope and methodology satisfactory to Purchaser, in its sole discretion.

(g) All legal matters in connection with this Agreement and the consummation of the transaction contemplated hereby shall be approved by counsel for Purchaser, and there shall have been furnished to such counsel by Seller such agreements, opinions of counsel, title or other records and information as they may reasonably have requested for that purpose.

(h) Purchaser shall have received approval of the transaction contemplated in this Purchase Agreement and the other Production Payment Documents from Purchaser's senior management located in Wichita, Kansas.

(i) Purchaser shall have received, at Seller's expense, favorable opinions of counsel satisfactory to Purchaser and licensed to practice in the State in which the Subject Interests are located, in form and substance satisfactory to Purchaser in its sole discretion regarding Seller's title to those of the Subject Interests listed on Annex II hereto and located in such State.

(j) Purchaser shall have received reserve data and completed an environmental review satisfactory to Purchaser, in its sole discretion, and, since the date of such review, there has been no material change in respect thereof.

(k) No suit, action or other proceeding shall be pending to restrain, enjoin or otherwise prevent the consummation of this Agreement or the transactions contemplated in connection herewith or which may have any material effect on the Subject Interests, and Purchaser shall have received a certificate to that effect from Seller.

(l) Purchaser shall have received evidence, in form, substance, scope and methodology satisfactory to Purchaser, in its sole discretion, that no provision of the Production Payment Documents violates any term or provision of that certain Credit Agreement, dated September 1, 1995, between Seller and Norwest Bank Montana National Association.

(m) Seller and Purchaser shall have made satisfactory arrangements for Purchaser to receive a \$3,646 structuring fee out of the funds to be distributed at Closing.

(n) No Default or Event of Default shall have occurred and be continuing on the Closing Date either before or after giving effect to this Agreement, the Conveyance or any other Production Payment Documents.

(o) Purchaser shall have received a copy of the 1996 Income Tax Return of Seller, certified by Seller.

(p) Purchaser shall have received an insurance certificate summarizing the insurance coverage of Seller, in form, substance, scope and methodology satisfactory to Purchaser in its sole discretion.

Section 13 Recording. Concurrently with the Closing, Purchaser will, at Seller's expense, record and/or file, or cause to be recorded and/or filed, in the appropriate recording and/or filing offices in each county and State in which any Subject Interest is located, an executed counterpart of (i) the Conveyance and (ii) the Memorandum of Agreement relating to Purchase of Crude Oil. This Agreement shall not be recorded.

Section 14 Amendments to Financings, etc Seller acknowledges, agrees and consents that, at any time and from time to time: (a) any financing arrangements of Purchaser may be incurred, amended, modified or supplemented or replaced at any time in any respect whatsoever for any purpose whatsoever; (b) Purchaser may sell, assign, transfer and otherwise deal in or with the Subject Interests or its interest therein, as the same may at any time be amended or modified, all without affecting this Agreement or the obligations of Seller hereunder, but subject to the requirements of Section 26; provided, however, that nothing in this Section shall expand the rights, obligations or liabilities of either Seller or Purchaser under, or in any manner alter the terms of, this Purchase Agreement, the Conveyance or any other Production Payment Document.

Section 15 Remedies of Purchaser.

(a) (i) If an Event of Default shall have occurred as a result of (1) a breach of warranty or representation as described under section A of the definition of Event of Default, or (2) a material breach of a covenant as described under section B of the definition of Event of Default (other than in respect of payment), Purchaser shall, after obtaining actual knowledge of such Event of Default, provide Seller with written notice specifying in reasonable detail the Event of Default which has occurred and stating that it intends to exercise remedies provided in this Section. Seller shall have 30 days either (i) after receipt of such notice to cure such default or (ii) after Seller should have notified Purchaser of such Event of Default pursuant to Sections 5(a)(iv) and 5(f)(viii) hereof, to provide Purchaser with notice and reasonable documentation that it has cured such Event of Default. If Seller does not provide such proper notice and evidence, then Purchaser may exercise the remedies set forth in paragraph B below of this Section;

(ii) If an Event of Default shall have occurred as a result of (1) a bankrupt or insolvent condition of Seller, as described under section E of the definition of Event of Default, (2) the continued existence of a Make-Up Volume balance above \$100,000 as described under section F of the definition of Event of Default, (3) a reduction of production as described under section C of the definition of Event of Default, (4) a Material Negative Reservoir Event as described under section G of the definition of Event of Default, or (5) an unauthorized cessation of Seller serving as operator as described under section D of the definition of Event of Default or Section 5(v) hereof, then Purchaser may exercise the remedies set forth in paragraph B of this Section;

(iii) If an Event of Default shall have occurred as a result of a material breach of a covenant as described under section B of the definition of Event of Default, due to the failure by Seller to pay a monetary amount owed, for which Purchaser would properly be entitled to charge the Make-Up Volume Balance under Paragraph (y) of Section 5 of this Purchase Agreement, and if Purchaser shall have paid any such amount(s), Purchaser shall notify Seller in writing of such payment(s), and if Seller does not fully reimburse Purchaser within 10 days of receipt of such notice, Purchaser shall be entitled to exercise its remedies under paragraph B of this Section.

(b) After the occurrence of an Event of Default, and a failure to cure the same, as set forth in paragraph A of this Section, and in addition to Purchaser's right to recover damages and all other remedies available to Purchaser at law or in equity, Purchaser may (but is not obligated or required to) exercise the following remedies. Purchaser may:

(i) perform or cause to be performed or pay at Seller's expense the act or matter the failure of which resulted in the Event of Default, in which event Purchaser may expend funds for such purpose,

(ii) after upon written notice to Seller, exercise all rights of Seller with respect to the possession, operation and development of some or all of the Subject Interests, including, without limitation, the right to operate some or all of the Subject Interests,

(iii) exercise the right to notify the purchasers of the Subject Hydrocarbons to make direct payment to Purchaser,

(iv) have the use, in connection with operating the Subject Interests, of all of Seller's property, equipment, machinery and facilities located thereon or used in connection therewith as then may be useful or appropriate for the production, treating, storing, and transporting of Subject Hydrocarbons, and Seller hereby grants to Purchaser a non-exclusive easement and license to use any and all such property, equipment, machinery and facilities including, without limitation, all surface and subsurface machinery, goods, equipment,

fixtures, inventory, facilities, supplies or other property of whatsoever kind or nature now or hereafter located on or under any of the lands described in Exhibit A to the Conveyance, including, but not by way of limitation, all oil wells, gas wells, water wells, injection wells, pumping units and engines, christmas trees, platforms, separators, compressors, tanks, gas systems, pipelines, water systems, power plants, communication systems, roads, loading racks and shipping facilities, and all other properties, rights, titles, interests and things of value, to the extent the same are transferable, including, without limitation, all operating agreements, processing agreements, farmin agreements, farmout agreements, joint venture agreements, exploration agreements, bottom hole agreements, dryhole agreements, support agreements, acreage contribution agreements, insurance policies, title opinions, title abstracts, title materials and information, files, records, data bases, information systems, logs, well cores, fluid samples, production data and reports, well testing data and reports, maps, seismic and geophysical, geological and chemical data and information, interpretative and analytical reports of any kind or nature, computer hardware and software and all documentation therefore or relating thereto (including, without limitation, all licenses relating to or covering such computer hardware, software and/or documentation), rights-of-way, easements, servitudes, surface leases, permits, licenses, subject, however, to the restrictions, exceptions, reservations, and other matters, if any, set forth in the specific descriptions of said properties and interests in such Exhibit A (including the presently existing and valid royalties, overriding royalties, payments out of production, oil and gas sales, purchase, exchange and processing contracts, and all other contracts and other instruments and matters, referred to in such Exhibit A), and

(v) on behalf of and for the account of Seller, sell or utilize all of the Subject Hydrocarbons and apply the proceeds thereof attributable to Seller's interest therein to the costs and expenses of the operation and development of the Subject Interests and to reimburse Purchaser for any amounts so expended by Purchaser,

(vi) request and require Seller to resign as operator of the Subject Interests and take all actions necessary to replace Seller as operator including, without limitation, replacing Seller with Purchaser or any of its Affiliates; provided that Seller shall remain obligated for all obligations, costs and expenses arising from operating the Subject Interests not reimbursed through the proceeds of production of such Subject Interests other than Production Payment Hydrocarbons.

(c) After the occurrence of an Event of Default, and Seller's failure to cure the same, as set forth in Paragraph (a) of this Section, Seller shall:

(i) reimburse Purchaser upon demand for all reasonable amounts expended (including the fees and out-of-pocket expenses of counsel in connection therewith) by Purchaser as a result of or in connection with its exercise of remedies under Paragraph B of this Section, to the

extent that such amounts can be paid out of Seller's interest in the proceeds from sale of Subject Hydrocarbons, together with interest on such amounts at the Specified Rate, and

(ii) In addition to and not in limitation of the foregoing, Purchaser shall have the option to accelerate or cause Seller to accelerate the Production Schedule to include some or all of the residual volumes, as necessary to repay the Scheduled Volumes and reduce the Make-Up Volume Balance to zero. Such volumes shall be applied as provided in Section 3 of the Conveyance. Purchaser's election to so accelerate and the amount of such acceleration shall be at Purchaser's sole discretion, but provided further, that if all Events of Default are cured within 60 days of their occurrence, then such acceleration shall cease to be effective, and the original schedule for delivery of Scheduled Volumes shall resume.

(iii) Notwithstanding the foregoing provisions of this Section, Purchaser will not exercise any of its rights pursuant to this Section in respect of the Event of Default described in section G of the definition of the term Event of Default in Annex VII, if within 30 days of the occurrence of such Event of Default, Seller shall deliver to Purchaser an Independent Reserve Report meeting the requirements of Section 5(f)(vi) hereof and otherwise in form and substance satisfactory to Purchaser which report demonstrates that as of the date of such report (which date shall be no more than 60 days from the date of delivery thereof to Purchaser) that the Proved Developed Producing Reserves attributable to the Subject Hydrocarbons are at least 150% of the sum of (i) the aggregate remaining Scheduled Volumes plus (ii) the quotient of the then Make-up Volume Balance divided by the Index Price (assuming an Index Price equal to the Index Price on the date of such report) as of the date of such report. If such Independent Reserve Report demonstrates Proved Developed Producing Reserves attributable to the Subject Hydrocarbons, as of the date of such report, is at least (A) 175% of such sum, then Purchaser shall promptly reimburse Seller for 100% of Seller's reasonable out-of-pocket costs to obtain such Independent Reserve Report.

(d) All rights which Purchaser shall have been entitled to exercise under the provisions of Paragraph B of this Section shall terminate upon the earlier of either (i) when the Production Payment terminates and all amounts then due and payable to Purchaser for Scheduled Volumes and the Make-Up Volume Balance (including interest, and all amounts within the Post Default balance), shall have been duly paid to Purchaser in full, or (ii) when such Event of Default of Seller shall have been remedied and all such amounts (including interest, and all amounts within the Post Default balance) shall have been duly paid in full, without prejudice, however, to the exercise of any such rights upon any subsequent Default or Event of Default.

Section 16 No Recourse. Notwithstanding anything to the contrary contained in this Agreement, the Conveyance, or any other Production Payment Document, recourse by Purchaser, or by its successors and assigns or by any

Person whose interests derive by, through or under Purchaser, against Seller for any Event of Default or other breach of any Production Payment Document shall be limited solely and exclusively to the Subject Hydrocarbons. Consistent with, but not as a limitation on, the foregoing, neither Purchaser nor any other Person shall have any rights or interests in or against any of the Subject Interests or any other assets of Seller other than the Subject Hydrocarbons and the proceeds from the sale thereof following their production. Also consistent with, but not as a limitation on, the foregoing, no incorporator, member, beneficiary, contributor, shareholder, director, officer, or employee of Purchaser, Seller or any Credit Supplier, if any, shall have any personal liability for the performance or observance of the covenants, representations and warranties of Purchaser or Seller, respectively, contained herein, and Seller or Purchaser, respectively, shall not seek any damages or personal money judgment against any incorporator, member, beneficiary, contributor, shareholder, director, officer or employee of Purchaser, Seller or any Credit Supplier, if any, for any default hereunder; all such personal liability, if any, whether at common law, in equity, by any constitution, statute, or otherwise, being released and waived as part of the consideration for the execution and delivery of this instrument.

Section 17 Notices. Any notice or communication required or permitted hereunder ("Notice") shall be given in writing, addressed to the following addresses:

To Seller:

GeoResources, Inc.
1407 West Dakota Parkway
Suite 1-B
Williston, ND 58801
Attention: J. P. Vickers
Telephone: (701) 572-2020
Telecopy: (701) 572-0277

To Purchaser:

Koch Producer Services, Inc.
600 Travis, 53rd Floor
Houston, Texas 77002
Attention: Mark Vivien
Telephone: (713) 229-5464
Telecopy: (713) 229-6161

All Notices shall be given by: (i) personal delivery, (ii) electronic communication, with a confirmation sent by certified mail return receipt requested, (iii) U.S. first class mail, postage prepaid, certified mail return receipt requested, or (iv) a nationally recognized overnight courier service. All Notices shall be effective and shall be deemed delivered (i) if by personal delivery or by overnight courier, on the date of delivery if delivered on or before 4:30 p.m. (Central time) on such day; otherwise, it

shall be deemed to have been delivered on the next business day following delivery, (ii) if by electronic communication, on the day of receipt unless received after 4:30 p.m. (Central time), in which event it shall be deemed to have been received on the next business day following receipt of the electronic communication, and (iii) if solely by mail, on the third business day following the date of posting (as evidenced by the postal receipt for the posting). A party may change its address by Notice to the other party.

Section 18 Expenses. Seller agrees to pay all costs and expenses of Purchaser (other than payments required to be made by Purchaser on account of any financing the proceeds of which are used to finance the purchase of the Production Payment or in connection with any assignment by Purchaser of the Production Payment, in whole or in part) in connection with, filing, recording or registration, and any refiling, re-recording or re-registrations, of any Production Payment Document, or any document executed and delivered pursuant hereto, but excluding (i) the fees and out-of-pocket expenses of internal and outside counsel for Purchaser in connection therewith or of Purchaser's employees, agents or consultants, or (ii) any and all costs of any prior environmental audits, including, but not limited to prior environmental reports and, all such reimbursable costs and expenses, to be paid in immediately available funds at the Closing, if then invoiced, and after the Closing to be paid promptly upon receipt of an invoice therefore. In addition, Seller agrees to pay, and to reimburse Purchaser for, all costs, expenses and taxes hereafter incurred by Purchaser in connection with the complete discharge of the Production Payment not paid out of Production Payment Hydrocarbons under the Conveyance, including, without limitation, expenses reasonably incurred by Purchaser for fees and out-of-pocket expenses of internal and outside counsel employed by Purchaser in connection therewith.

Section 19 Survival. All of the representations, warranties, indemnities, covenants and agreements contained herein or in the Conveyance shall survive the Closing and the conveyance of the Production Payment pursuant to the Conveyance.

Section 20 Successors and Assigns. This Agreement and the Conveyance shall inure to the benefit of and be binding upon Seller and its successors and assigns and Purchaser and its respective successors and assigns; but subject to the following terms and conditions. Notwithstanding anything in this Agreement or any other Production Payment Document to the contrary:

(a) Seller may not assign or transfer any of its rights or obligations hereunder or under the other Production Payment Documents without the prior written consent of Purchaser, which consent shall not be unreasonably withheld.

(b) Purchaser may mortgage, pledge, assign or transfer any or all of its rights or obligations, or both, hereunder or under any of the other Production Payment Documents without the necessity or requirement of any consent by Seller, but the rights of such assignees or mortgagees shall be subject to the provisions of this Agreement, including Section 26 below.

(c) No assignment, mortgage, pledge, or other transfer of any nature whatsoever, or any financing arrangements, or any interest rate or commodity swap or hedge agreements, or any other agreement of any nature whatsoever, entered into by Purchaser with respect to the Production Payment, shall expand the rights, obligations, or liabilities of either Seller or Purchaser under, or in any manner alter the terms of, this Agreement, the Conveyance, or any other Production Payment Document. Consistent with but not as a limitation on the foregoing, no third party whose interests derive by, through, or under a party (the "Assigning Party") shall have any rights, remedies, or benefits against the other party that are greater than the rights, remedies, or benefits the Assigning Party would have in the absence of the transaction that gave rise to such third party interest that derives by, through, or under the Assigning Party.

(d) This Agreement and the other Production Payment Documents are for the sole benefit of the parties and their successors and assigns and shall be construed accordingly so as not to confer third party beneficiary rights in any other party. Consistent with but not as a limitation on the foregoing, nothing in this Agreement or in any other Production Payment Document, express or implied, is intended to or shall confer upon any Person other than Seller, Purchaser and the Indemnified Parties any rights, remedies or other benefits under or by reason of this Agreement.

Section 21 Interest on Unpaid Amounts. Any amount not paid when due hereunder or under the Conveyance, including, without limitation, on amounts included within the Make-Up Volume Balance, shall bear interest on such overdue amount at a rate of interest per annum equal to the lesser of (i) Prime Rate plus (A) if no Event of Default shall have occurred and is continuing two percent (2%) or (B) if an Event of Default shall have occurred and be continuing, six percent (6.0%), or (ii) the Highest Lawful Rate, whichever is such lesser rate from time to time (the "Specified Rate"). Such interest shall be included within the Interest Amount of the Make-Up Balance.

Section 22 Maximum Interest. It is the intention of the parties hereto to conform strictly to applicable usury laws and, anything herein or in any other Production Payment Document to the contrary notwithstanding, the obligations of Seller to Purchaser under this Agreement and the other Production Payment Documents shall be subject to the limitation that payments of interest shall not be required to the extent that receipt or charging thereof would be contrary to provisions of law applicable to Purchaser limiting rates of interest which may be charged or collected by Purchaser. Accordingly, if the transactions contemplated hereby would be usurious under applicable law (including the Federal and state laws of the United States of America, or of any other jurisdiction whose laws may be mandatorily applicable) with respect to Purchaser, then, in that event, notwithstanding anything to the contrary in this Agreement or the other Production Payment Documents, it is agreed as follows: (a) the provisions of this Section shall govern and control; (b) the aggregate of all consideration which constitutes interest under applicable law that is contracted for, charged or received under this Agreement and the other Production Payment Documents, or under any

of the other aforesaid agreements or otherwise in connection with this Agreement by Purchaser shall under no circumstances exceed the maximum amount of interest allowed by applicable law (such maximum lawful interest rate, if any, with respect to Purchaser herein called the "Highest Lawful Rate"), and any excess shall be credited to Seller by Purchaser (or, if such consideration shall have been paid in full, such excess refunded to Seller); (c) all sums paid, or agreed to be paid, to Purchaser for the use, forbearance and detention of the amounts owed under this Agreement by Seller to Purchaser hereunder shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such amounts owed under this Agreement and the other Production Payment Documents until payment in full so that the actual rate of interest is uniform throughout the full term thereof; and (d) if at any time the interest provided pursuant to Section 21 together with any other fees payable pursuant to this Agreement and the other Production Payment Documents and deemed interest under applicable law, exceeds that amount which would have accrued at the Highest Lawful Rate, the amount of interest and any such fees to accrue to Purchaser pursuant to this Agreement and the other Production Payment Documents shall be limited, notwithstanding anything to the contrary in this Agreement or in any other Production Payment Document to that amount which would have accrued at the Highest Lawful Rate, but any subsequent reductions, as applicable, shall not reduce the interest to accrue to Purchaser pursuant to this Agreement and other Production Payment Documents below the Highest Lawful Rate until the total amount of interest accrued pursuant to this Agreement and the other Production Payment Documents and such fees deemed to be interest equals the amount of interest which would have accrued to Purchaser if a varying rate per annum equal to the interest provided pursuant to Section 21 had at all times been in effect, plus the amount of fees which would have been received but for the effect of this Section.

Section 23 Miscellaneous Provisions. No delay by Purchaser in the exercise of any right or remedy under this Agreement or any other Production Payment Document shall operate as a waiver thereof, and no single or partial exercise by Purchaser of any right or remedy under this Agreement or any other Production Payment Document shall preclude other or further exercise thereof or the exercise of any other right or remedy hereunder or thereunder; nor shall any modification to or waiver of any of the provisions of this Agreement or any other Production Payment Document be binding upon either Seller or Purchaser except as expressly set forth in a writing duly signed and delivered on behalf of the Person to be bound. No action by Purchaser or Seller permitted hereunder shall in any way affect or impair the rights and obligations of the other party under this Agreement except as set forth herein or in the Conveyance. Seller acknowledges that Purchaser may from time to time enter into interest rate or commodity swap or hedge agreements with respect to the Production Payment.

Section 24 Section Captions. Section captions used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

Section 25 Indemnity. In consideration of the purchase by Purchaser of

the Production Payment, Seller hereby indemnifies, exonerates and holds each Indemnified Party free and harmless from and against any and all claims, demands, suits, actions, causes of action, losses, costs, judgments, liabilities (including, without limitation, fines, penalties and interest) and damages, and expenses of every kind and nature incurred in connection therewith (irrespective of whether any such Indemnified Party is a party to the action for which indemnification hereunder is sought), including reasonable attorneys' fees and disbursements incurred by any Indemnified Party in enforcing the indemnified obligations hereunder, together with interest on such amounts at the Specified Rate until paid in full (collectively, the "Indemnified Liabilities"), made against or incurred by, the Indemnified Parties or any of them as a result of, or arising out of, or relating to (a) the Production Payment, (b) any loss or claim with respect to any royalties or burdens on production, (c) the Conveyance, this Agreement or the other Production Payment Documents and the ownership or purported ownership of the Production Payment, (d) any investigation, litigation or proceeding related to the Subject Interests and including any environmental cleanup, audit, compliance or other matter relating to any Environmental Law or the protection of the environment or the Release by Seller or any of his officers, directors, employees or agents (but not by Purchaser, the Oil Buyer, or any of their officers, directors, employees or agents) of any Hazardous Material; (e) the presence on or under, or the Release from, any of the Subject Interests any Hazardous Material (including any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under any Environmental Law), regardless of whether caused by, or within the control of, Seller (but not if caused by Purchaser, the Crude Buyer or any of their officers, directors, employees or agents), (f) any material breach of any representation or warranty by Seller contained in this Purchase Agreement or any other Production Payment Document, including, without limitation, any representation or warranty with respect to title to any of the Subject Interests, (h) the failure of Seller to perform any of its material agreements or obligations set forth in this Agreement or in the other Production Payment Documents or the failure of any Oil delivered to satisfy the quality or the quantity specifications for such oil, and whether through an act or omission of an Indemnified Party or otherwise, and whether or not arising out of the sole, joint or concurrent negligence, fault or strict liability of any Indemnified Party, except for any such Indemnified Liabilities arising for the account of a particular Indemnified Party by reason of the relevant Indemnified Party's gross negligence or willful misconduct and except in the case of Indemnified Liabilities of the type described in the foregoing clause (d) or (e) to the extent caused by the Purchaser or any of its officers, directors, employees or agents, PROVIDED, THAT IT IS THE INTENTION OF THE PARTIES HERETO THAT THE INDEMNIFIED PARTIES BE INDEMNIFIED IN THE CASE OF THEIR OWN ORDINARY NEGLIGENCE BUT NOT IN THE CASE OF THEIR GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. This indemnity shall apply, without limitation, to any Indemnified Liability imposed upon any Indemnified Party as a result of any statute, rule, regulation or theory of strict liability. The Indemnified Parties, and their respective successors and assigns, shall have the right to defend against any such claims, employing attorneys therefore and, unless furnished with reasonable indemnity, they or any of them shall have the right to pay or compromise and adjust all such claims. If and to the extent that

the foregoing undertaking may be unenforceable for any reason, Seller hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

Section 26 Servicer. If Purchaser should mortgage or assign any interests hereunder or under the Conveyance to more than one Person, such Persons must from time to time designate in writing one Person to act as Servicer (the "Servicer") to act as the exclusive authorized representative on behalf of Purchaser to receive notices on behalf of Purchaser hereunder or under the Conveyance, to arrange deliveries of Production Payment Hydrocarbons to Purchaser or to take such other actions or perform such elections and obligations of Purchaser under this Agreement and the Conveyance. Seller shall be entitled to deal only with the Servicer regarding such matters until notified by Purchaser of a change in the Servicer. Seller shall not be obligated to acknowledge or honor any assignment or mortgage of Purchaser's rights and interests until it has been notified in writing of such assignment, then shall Seller be required to deal with anyone other than the Servicer regarding such interests. This provision shall not affect the validity of any assignment or mortgage of which Seller is not notified, but controls the parties entitled to deal with Seller regarding such rights and interests.

Section 27 Right of First Refusal. Purchaser shall have, and Seller hereby grants to Purchaser, a right of first refusal to match any proposed capitalization (including any loan or equity contribution) of Seller with respect to any well or other development in connection with the Subject Interests, negotiated by Seller at any time prior to November 30, 1999 by a bona-fide third party; provided that Purchaser shall give notice of its intent to exercise its right of first refusal within 30 Business Days of Purchaser's receipt of a true and correct copy of such third party's commitment, term sheet or letter of understanding with Seller. Seller covenants and acknowledges that the granting of this right of first refusal was a material condition and consideration for Purchaser entering into this Purchase Agreement and that Purchaser would not have entered into this Purchase Agreement except for the granting of this right of first refusal.

Section 28 Choice of Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF THE STATE OF KANSAS AND FOR ALL PURPOSES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THAT STATE IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

Section 29 Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER PRODUCTION PAYMENT DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF SELLER OR PURCHASER SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF KANSAS OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF KANSAS; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY SUBJECT INTEREST OR OTHER PROPERTY MAY BE BROUGHT IN THE COURTS OF ANY JURISDICTION WHERE SUCH SUBJECT INTEREST OR OTHER PROPERTY MAY BE FOUND. SELLER AND PURCHASER HEREBY EXPRESSLY AND IRREVOCABLY SUBMIT TO THE

JURISDICTION OF THE COURTS OF THE STATE OF KANSAS AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF KANSAS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREE TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. SELLER AND PURCHASER EACH FURTHER IRREVOCABLY CONSENT TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF KANSAS. SELLER AND PURCHASER EACH HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH SELLER OR PURCHASER MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT SELLER OR PURCHASER HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OF FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO THEMSELVES OR THEIR INTERESTS, SELLER AND PURCHASER EACH HEREBY IRREVOCABLY WAIVE SUCH IMMUNITY IN RESPECT OF THEIR OBLIGATIONS UNDER THIS AGREEMENT AND THE OTHER PRODUCTION PAYMENT DOCUMENTS, BY ACCEPTING ANY ASSIGNMENT OF INTERESTS SUBJECT HERETO, THE ASSIGNEE SHALL ACCEPT THIS PROVISION.

Section 30 Waiver of Jury Trial. SELLER AND PURCHASER EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER PRODUCTION PAYMENT DOCUMENTS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE PARTIES IN CONNECTION THEREWITH. SELLER AND PURCHASER EACH ACKNOWLEDGE AND AGREE THAT THEY HAVE RECEIVED FULL AND SUFFICIENT CONSIDERATION FOR THIS PROVISION (AND EACH OTHER PROVISION OF THIS AGREEMENT AND THE OTHER PRODUCTION PAYMENT DOCUMENTS) AND THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE OTHER PARTY HERETO ENTERING INTO THIS AGREEMENT AND THE OTHER PRODUCTION PAYMENT DOCUMENTS, BY ACCEPTING ANY ASSIGNMENT OF INTERESTS SUBJECT HERETO, THE ASSIGNEE SHALL ACCEPT THIS SECTION.

Section 31 No Oral Agreements. THIS AGREEMENT (INCLUDING THE ANNEXES AND SCHEDULES ATTACHED HERETO) AND THE OTHER PRODUCTION PAYMENT DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date hereinabove first written.

SELLER:

GEORESOURCES, INC.

By: /s/ J. P. Vickers

Name: J. P. Vickers
Title: President

PURCHASER:

KOCH PRODUCER SERVICES, INC.

By: /s/ Bradley D. Burnside
Name: Bradley D. Burnside
Title: Vice President

ANNEX I
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

[Form of Conveyance of Volumetric Production Payment to be attached]

CONVEYANCE OF VOLUMETRIC PRODUCTION PAYMENT

from

GEORESOURCES, INC.,

to

KOCH PRODUCER SERVICES, INC.

Dated effective as of December 3, 1997

TABLE OF CONTENTS

	Page
Section 1. Conveyance	1
Section 2.1 Monthly Deliveries	2
Section 2.2 Make-Up Volume Balance	3
Section 3. Application of Production Payment Hydrocarbons	3
Section 4. Term of the Production Payment	3
Section 5. Certain Conditions Applicable to the Production Payment	4

Section 6.	Abandonment of Wells or Surrender or Mortgage or Transfer of Subject Interests	4
Section 7.	Pooling and Unitization	4
Section 8.	Definitions	4
Section 9.	Successors and Assigns	4
Section 10.	Representations and Warranties	5
Section 11.	Unenforceable or Inapplicable Provisions	5
Section 12	Section Captions	6
Section 13.	Execution in Counterparts	6

EXHIBITS, SCHEDULES AND ANNEXES

EXHIBIT A	-	Description of the Leases
EXHIBIT B	-	Definitions
SCHEDULE I	-	Scheduled Volumes

CONVEYANCE OF VOLUMETRIC PRODUCTION PAYMENT

THIS CONVEYANCE OF VOLUMETRIC PRODUCTION PAYMENT is dated effective as of December 3, 1997 (the "Effective Date") (such agreement, as from time to time hereafter may be modified, supplemented or amended, this "Conveyance"), and is a CONVEYANCE OF VOLUMETRIC PRODUCTION PAYMENT from GEORESOURCES, INC., a Colorado corporation (herein called "Working Interest Owner"), to KOCH PRODUCER SERVICES, INC., a Delaware corporation (herein called "Production Payment Owner").

RECITALS

Working Interest Owner is presently the owner of interests in the Oil and gas leases and other interests described in Exhibit A attached hereto and intends to hereby convey to Production Payment Owner a production payment payable from the oil produced therefrom.

CONVEYANCE OF PRODUCTION PAYMENT

Section 1. Conveyance. Working Interest Owner, for valuable consideration to Working Interest Owner in hand paid by Production Payment Owner, the receipt and sufficiency of which are hereby acknowledged, hereby grants, sells, conveys, assigns, delivers and sets over unto Production

Payment Owner, effective as of 7:00 a.m. on the Effective Date, as a real property interest and as a PRODUCTION PAYMENT, such portion of all the Subject Hydrocarbons that shall entitle Production Payment Owner to receive in kind, free and clear of (and without deduction therefrom of) any and all royalties and other burdens on production, including, without limitation, all Operating Expenses, at the Delivery Points, during each Month severed Production Payment Hydrocarbons in a quantity equal to (A) the Scheduled Volumes for such Month, plus (B) Make-Up Volumes to be delivered during such Month such that the Make-Up Volume Balance shall be reduced to zero (but not to exceed in any Month the Maximum Make-Up Volume). The interests hereby conveyed, including, but not limited to, the real property interest described above, together with the Hydrocarbons accruing thereto and the rights, titles, interests, remedies, powers and privileges appurtenant or incident thereto, as hereinafter provided, are hereinafter called the "Production Payment".

The Scheduled Volumes shall be those quantities of oil to be delivered during each Month, as set forth on Schedule I attached hereto, which shall total, in the aggregate, 27,375 barrels of oil. The Make-Up Volumes shall be those additional volumes of oil to be delivered during each Month (but not to exceed in any Month the Maximum Make-Up Volume), above the Scheduled Volumes for such Month, in order to reduce the Make-Up Volume Balance outstanding during such Month to zero.

This Production Payment shall continue for a term extending from the Effective Date until November 30, 1998, and so long thereafter until the Make-Up Volume Balance shall be zero, as set forth in Section 4. The Production Payment shall be, and all Production Payment Hydrocarbons shall be delivered, free and clear of (and without deduction of) any and all royalties and other burdens on production, including, without limitation, all Production Expenses.

TO HAVE AND TO HOLD the Production Payment unto Production Payment Owner, and Production Payment Owner's successors and assigns for the term hereof.

This Production Payment shall extend to, burden and encumber each Subject Interest, together with all extensions and renewals of each Subject Interest, and any replacements of such interests acquired by Working Interest Owner in lands now covered by a Subject Interest during the term hereof. In the event any individual Subject Interest (or portion thereof, as applicable) should cease to be in force and effect, or otherwise expire before the time this Conveyance and the Production Payment shall terminate, and such individual Subject Interest (or portion thereof, as applicable) not be extended, renewed or replaced, the Production Payment no longer shall apply to that particular Subject Interest (or portion thereof, as applicable), but the Production Payment shall remain in full force and effect and undiminished as to all remaining Subject Interests (and the remainder portion of such Subject Interest, as applicable), and neither the Scheduled Volume nor the Make-Up Volumes shall ever be reduced or diminished by reason of the expiration of a Subject Interest (or any portion thereof, as applicable).

Section 2.1 Monthly Deliveries. Each Month, Working Interest Owner shall deliver, and Production Payment Owner shall accept and receive, at the Delivery Points the Production Payment Hydrocarbons, being those volumes of oil constituting (A) the Scheduled Volumes for such Month (as set forth on Schedule 1 attached hereto) and (B) the Make-Up Volumes (if any) owed during such Month, provided, however, that during any Month Working Interest Owner shall not be required to deliver either (i) volumes of Production Payment Hydrocarbons in excess of the total volume of Subject Hydrocarbons produced during such month, less those volumes necessary to pay state severance taxes, royalties and overriding royalties for such Month or (ii) Make-Up Volumes in an amount that would cause the total Production Payment Hydrocarbons delivered during any month to exceed seventy-five percent (75%) of the total volume of Subject Hydrocarbons produced during any Month but provided further, that Production Payment Owner may require Working Interest Owner to deliver Production Payment Hydrocarbons in an amount up to 100% of the total volume of Subject Hydrocarbons produced during any Month less those volumes necessary to pay state severance taxes, royalties and overriding royalties for such Month if such deliveries are needed to pay Production Payment Owner any Post-Default Amount which is included within the Make-Up Volumes to be delivered during such Month. During any month, Production Payment Owner shall not be required to accept and receive, and Working Interest Owner shall not be required to deliver any volumes in excess of the volume of Production Payment Hydrocarbons owed during such Month, provided, however, that for any Month, Production Payment Owner and Working Interest Owner may mutually agree to increase the volumes of Production Payment Hydrocarbons to be delivered and received during such Month, and such increased volumes shall be applied as set forth in the Purchase Agreement.

Section 2.2 Make-Up Volume Balance. The Make-Up Volume Balance shall be the amount of additional Production Payment Hydrocarbons, if any, owed by Working Interest Owner by reason of certain obligations, the performance of which may be enforced through this Production Payment interest, as defined in Annex VII of the Purchase Agreement.

Section 3. Application of Production Payment Hydrocarbons. During each Month, production from wells operated under the Subject Interests shall be applied first towards satisfying obligations for any royalty interests, overriding royalty interests and state severance taxes existing on the Effective Date. The next production during such Month attributable to the Subject Interests shall be applied as Production Payment Hydrocarbons, and any remaining production during such Month shall be credited to Working Interest Owner. The Production Payment Hydrocarbons actually received by Production Payment Owner during any Month shall be deemed to have been received and applied as of the last day of such Month, as follows:

First, to reduction of the unliquidated balance of the Make-Up Volume Balance referred to in Section 2.2.

Second, to the Scheduled Volumes, for such Month; and

Third, as provided in the Purchase Agreement, if the parties mutually

agree to the delivery and receipt of additional volumes of Production Payment Hydrocarbons.

No application of Subject Hydrocarbons to the Production Payment shall be deemed to have been made except from severed Production Payment Hydrocarbons actually received in kind by or on behalf of Production Payment Owner.

Section 4. Term of the Production Payment. Upon the receipt by the Production Payment Owner of the sum of the Scheduled Volumes plus such additional volumes of Production Payment Hydrocarbons or other payments such that the Make-Up Volume Balance shall be reduced to zero, the Production Payment shall be fully discharged. Upon discharge of the Production Payment as above provided, all rights, titles, interests, powers, remedies and privileges herein conveyed shall terminate and revert to Working Interest Owner, its successors and assigns, and, upon request by Working Interest Owner, Production Payment Owner shall execute and deliver at the cost and expense of Working Interest Owner such instrument or instruments as may be reasonably necessary to evidence the discharge and termination of the Production Payment.

Section 5. Certain Conditions Applicable to the Production Payment. The Production Payment shall be subject to the following provisions:

The Production Payment conveyed pursuant hereto is a non-expense-bearing interest in the Subject Interests, free of all cost, risk and expense of production, operation and delivery (to the Delivery Points or Alternate Delivery Points) and is a non-operating interest. Production Payment Owner and its successors and assigns shall not be liable or responsible in any way for payment of any costs, expenses or liabilities in respect of the Subject Interests or any portion thereof or incurred in connection with the production or delivery of Production Payment Hydrocarbons or in developing, exploring, drilling, equipping, testing, operating, producing, maintaining or abandoning the Subject Interests or any well or facility thereon or in storing, handling, treating or transporting to any Delivery Point or Alternate Delivery Point production therefrom and is released from all such costs, expenses and liabilities as a part of the consideration for the purchase by the Production Payment Owner of the Production Payment. If Production Payment Owner shall pay any such costs, expenses or liabilities notwithstanding the foregoing, the Production Payment Owner shall have no obligation or liability for any other such costs, expenses or liabilities, and the Working Interest Owner hereby indemnifies Production Payment Owner and each other Indemnified Party from and against all such costs, expenses and liabilities.

Section 6. Abandonment of Wells or Surrender or Mortgage or Transfer of Subject Interests. So long as the Production Payment remains in force, Working Interest Owner shall not, without first obtaining the written consent of Production Payment Owner, as provided in the Purchase Agreement, abandon, voluntarily surrender or release any well on the Subject Interests or any part thereof on the date hereof which is producing or capable of producing in paying quantities.

Section 7. Pooling and Unitization. Working Interest Owner may not enter into pooling or unitization agreements affecting the Subject Interests or any part thereof without the prior written consent of Production Payment Owner.

Section 8. Definitions. In addition to the defined terms set forth on Exhibit B hereto, for all purposes of this Conveyance, terms defined in Annex VII to the Purchase Agreement for Volumetric Production Payment between the Working Interest Owner and the Production Payment Owner dated as of December 3, 1997, (the "Purchase Agreement") shall be used herein with the same meaning. This Conveyance shall be subject to the relevant provisions of the Purchase Agreement.

Section 9. Successors and Assigns. All the covenants and agreements of Working Interest Owner herein or in the Purchase Agreement shall be covenants running with the land and the Subject Interests and shall be binding upon Working Interest Owner and its heirs, beneficiaries, legal representatives, successors and assigns and shall inure to the benefit of Production Payment Owner and its heirs, beneficiaries, legal representatives, successors and assigns; provided, however, that (i) this provision shall not be deemed to permit any assignment or other transfer of the interest of Working Interest Owner in any of the Subject Interests that is not permitted by the provisions of this instrument or the Purchase Agreement and (ii) any assignee or transferee of any of Working Interest Owner's rights hereunder or thereunder shall be subject to the terms of the Purchase Agreement and this Conveyance. All the covenants and agreements of Production Payment Owner herein or in the Purchase Agreement shall be binding upon Production Payment Owner and its heirs, beneficiaries, legal representatives, successors and assigns and shall inure to the benefit of Working Interest Owner and its heirs, beneficiaries, legal representatives, successors and assigns, and any assignee or transferee of any of Production Payment Owner's rights hereunder or thereunder shall be subject to the terms of the Purchase Agreement and this Conveyance. Consistent with, but not as a limitation on, the foregoing, subject to the terms, conditions, and requirements of the Purchase Agreement, including, without limitation, those set forth in Sections 16 and 20 of the Purchase Agreement, Production Payment Owner, or Production Payment Owner's successors and assigns, shall have the right and power to sell, convey, assign or mortgage the Production Payment in whole or in part. If Production Payment Owner, or Production Payment Owner's successors and assigns, at any time shall execute a mortgage or deed of trust covering all or any part of the Production Payment as security for any obligation, the mortgagee, the pledgee or the trustee therein named or the holder of the obligation secured thereby shall be entitled, to the extent such mortgage or deed of trust so provides, to exercise all of the rights, remedies, powers and privileges herein conferred upon Production Payment Owner, and to give or withhold all consents herein required or permitted to be obtained from Production Payment Owner, provided however that, notwithstanding the foregoing, in the event of a mortgage or partial assignment of the Production Payment, Production Payment Owner and all assignees and mortgagees shall designate in writing from time to time to Working Interest Owner, one party who shall be authorized to act as the

exclusive representative of all owners and mortgagees of this Production Payment concerning dealings with Working Interest Owner in matters involving this Conveyance or the Purchase Agreement.

Section 10. Representations and Warranties. Working Interest Owner warrants title to the Production Payment. This Conveyance is made with full substitution and subrogation of Production Payment Owner, its successors and assigns, in and to all covenants and warranties by others heretofore given or made in respect of any of the Subject Interests or any part thereof.

Section 11. Unenforceable or Inapplicable Provisions. If any provision hereof is invalid or unenforceable in any jurisdiction, the other provisions hereof shall remain in full force and effect in such jurisdiction, and the remaining provisions hereof shall be construed to effectuate the provisions hereof, and the invalidity of any provision hereof in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction.

Section 12. Section Captions. Section captions used in this Conveyance are for convenience of reference only and shall not affect the construction of this Conveyance.

Section 13. Execution in Counterparts. This Conveyance may be executed in several counterparts each of which shall be deemed to be an original and all of which are identical. All of such counterparts together shall constitute but one and the same Conveyance. All of said documents are integral parts of one consolidated transaction and are to be construed as a single transaction.

IN WITNESS WHEREOF, this Conveyance has been executed, or caused to be executed on his behalf, by Working Interest Owner as of the day and year first above written, but effective as of the Effective Date.

WORKING INTEREST OWNER:

GEORESOURCES, INC.

By: /s/ J. P. Vickers
Name: J.P. Vickers
Title: President

The name and address of Working Interest Owners is:

GeoResources, Inc.
1407 West Dakota Parkway, Suite 1-B
Williston, ND 58801

The name and address of Production Payment
Owner are:

KOCH PRODUCER SERVICES, INC.
600 Travis, 53rd Floor
Houston, Texas 77002
Attention: Mark Vivien

ACKNOWLEDGMENTS

STATE OF North Dakota)
) SS.
COUNTY OF Williams)

BE IT REMEMBERED that I, Cathy Callahan, a Notary Public duly qualified, commissioned, sworn and acting in and for the County and State aforesaid, hereby certify that, on this 3rd day of December, 1997, there appeared before me J. P. Vickers, the President of GeoResources, Inc., a Colorado corporation, whose address is 1407 West Dakota Parkway, Suite 1-B, Williston, ND 58801.

TEXAS This instrument was acknowledged before me on this day by each such person as the designated officer of the corporation set opposite his name (or a Trustee, as the case may be) on behalf of said corporation set opposite his name (or of himself as Trustee, as the case may be).

NORTH DAKOTA Before me personally appeared each such person, each of whom is known to me to be the officer of the corporation or association described in and that executed this instrument, and acknowledged to me that such corporation or association executed the same.

Witness my hand and official seal.

/s/ Cathy L. Callahan
Notary Public

Residing at Williston, ND

My commission expires:
June 22, 1999

EXHIBIT A
to
Conveyance of Volumetric Production Payment

This Exhibit A sets forth the description of the "Leases" and other interests which are defined as "Subject Interests" in the Conveyance of Volumetric Production Payment to which this Exhibit A is attached, subject to the limitations contained herein.

Property Descriptions:

Leases. Each field contains descriptions of the oil, gas and mineral leases, oil and gas leases and other interests which are the "Leases" covered hereby covering lands located within the State of North Dakota in each case such properties lying within the State identified. The following descriptive information may also be included for a particular Lease.

County. A designation of the county in which the respective Subject Interests lie.

Description of Property. This sets forth a description of some or all of the properties covered by the Oil and gas leases designated.

The Subject Interests are not limited nor shall they be confined to any unit, unitized interval, aerial extent of a unit, well bore or other similar limitation, notwithstanding the inclusion of well names, unit names, land descriptions or other matters, all of which are included for identification only. Rather, all of the interests of Working Interest Owner in the various Leases listed on the following pages shall be included within the meaning of the term Subject Interests.

Leasehold and Net Revenue Interests. Immediately following the listing of Leases for each field is a listing of Properties, well names associated therewith and, as indicated, "Leasehold and Net Revenue Interests" for each such well. With respect to each of the said wells, the leasehold interest is the share of costs borne with respect thereto and the net revenue interests shall mean, with respect to the relevant well or the relevant unit on which the well is located, that interest in the Oil and Gas production which is produced, saved and sold from such well or unit after deducting all burdens against the production therefrom (other than the burden or burdens created by this instrument and other instruments of even date herewith among the same parties as those who have executed this instrument).

Matters Contested in Good Faith. Following the description of Permitted Liens in this Exhibit A is a listing of all liens and encumbrances pertaining to the Subject Interests which the Working Interest Owner is contesting in good faith.

EXHIBIT "A"

STATE OF NORTH DAKOTA COUNTY OF BOTTINEAU

Lease Schedule

LESSOR State Land Department, State of North Dakota
LESSEE Leonard F. Ward and Almer Swanson
DATE 5/29/49
DESCRIPTION Township 162 North, Range 82 West
Section 25: NE1/4 and other lands not
subject to this agreement
ACRES 160
BOOK Z
PAGE 475

LESSOR William M. Steinhaus (aka W. M. Steinhaus)
and Louise Steinhaus, husband and wife
LESSEE Placid Oil Company
DATE 8/23/73
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 176
PAGE 219

LESSOR Evelyn L. Lorius (fka Evelyn L. Nielsen)
and Fred A. Lorius, wife and husband
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 21

LESSOR R. O. Gothenquist and
Ruth M. Gothenquist, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 41

LESSOR Howard Spoklie
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 294

LESSOR Walter Satrom and
Ruby L. Satrom, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 296

LESSOR Melvin Ballantyne and
Russell Ballantyne
LESSEE GeoResources, Inc.
DATE 9/23/77
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2
ACRES 157.31
BOOK 207
PAGE 404

LESSOR Phillips Petroleum Company
LESSEE GeoResources, Inc.
DATE 4/20/77
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2
ACRES 157.31
BOOK 212
PAGE 25

LESSOR Great American Royalties, Inc.
 LESSEE GeoResources, Inc.
 DATE 9/23/77
 DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2
 ACRES 157.31
 BOOK 254
 PAGE 546

Well Schedule (Wells in the pooled area described as the NE1/4 Sec. 25, T162N R82W and the NW1/4 Sec. 30, T162N R81W containing 317.31 acres)

Well Name	Working Interest	Net Revenue
	Percentage	Interest Percentage
Ballantyne-State #1	100.0	81.40854
Ballantyne-State #3	100.0	81.40854
William Steinhaus #1 SWD	100.0	N/A
William Steinhaus #2	100.0	81.40854
Ballantyne-State/Steinhaus #H1	100.0	81.40854

EXHIBIT B
 to
 Conveyance of Volumetric Production Payment

This Exhibit B sets forth the definition of certain terms used in the Conveyance.

Defined Terms:

Capitalized terms used in this Preamble and not otherwise defined herein shall the means ascribed to them in Annex VII to the Purchase Agreement. Certain specific terms are defined as set forth below:

"Hydrocarbons" shall mean collectively, crude oil, condensate and other liquid hydrocarbons, but not natural gas or liquid products extracted from gas by means other than conventional field separation.

"Lease Use Hydrocarbons" means any Hydrocarbons which are unavoidably lost in the production thereof or used by Working Interest Owner or the operator of the Subject Interests in conformity with good field practices in drilling or producing operations (including gas injection, secondary recovery, pressure maintenance, repressuring or cycling operations) conducted for the purpose of producing Hydrocarbons from the Subject Interests, but only for so long as and to the extent

such Hydrocarbons are so used.

"Production Payment Hydrocarbons" shall mean the Hydrocarbons conveyed to Production Payment Owner pursuant to this Conveyance and shall include Scheduled Volumes and Make-Up Volumes as the same may be adjusted from time to time as set forth in Sections 1 and 2 hereof and in the Purchase Agreement, which shall accrue or be attributable to the Production Payment; provided, however, that Production Payment Hydrocarbons shall not include (I) Non-Consent Hydrocarbons where the Working Interest Owner is the non-consenting party or (ii) Lease Use Hydrocarbons.

"Subject Hydrocarbons" shall mean all Hydrocarbons in and under, and which may be produced and saved from, and which shall accrue or be attributable to the Subject Interests and which are produced after the Effective Date (other than Lease Use Hydrocarbons and Non-Consent Hydrocarbons where Working Interest Owner is the non-consenting party).

"Subject Interests" shall mean Working Interest Owner's right, title and interest in the Oil and gas leases and the leasehold working interests, described in Exhibit A, together with all Hydrocarbons severed during the term of this Production Payment which are attributable to such leases and interests; together with Working Interest Owner's right, title and interest, if any, in, to and under, or derived from, all of the valid Subject Hydrocarbons unitization and pooling agreements which are described in such Exhibit A or which relate to any of the properties and interests described in such Exhibit A. The term "Subject Interest," when used with reference to any particular Subject Interest, shall mean and include Working Interest Owner's right, title and interest in (i) such Subject Interest as the same may be enlarged or diminished by the provisions of any contract or other instrument described in Exhibit A, or by the removal of any charges or encumbrances to which such Subject Interest is subject, (ii) any and all renewals, replacements and extensions of such Subject Interest, or other interests in the Hydrocarbons in, under and that may be produced from lands comprising a portion of the Subject Interests acquired by Working Interest Owner during the term hereof, (iii) all contracts supplemental to or amendatory of or in substitution for the contracts described above insofar as the same relate to such Subject Interest, and (iv) all rights, titles and interests accruing or attributable to such Subject Interest by virtue of its being included in any unit.

SCHEDULE I

to

Conveyance of Volumetric Production Payment

Month	Scheduled Oil Volumes (bbls)	Delivery Point
Dec-97	2,325	Delivery point is at the

Jan-98	2,325	Central tank battery for the
Feb-98	2,100	following wells unless
Mar-98	2,325	mutually agreed to by Koch Oil
Apr-98	2,250	Company and GeoResources, Inc.
May-98	2,325	
Jun-98	2,250	Well Names
Jul-98	2,325	
Aug-98	2,325	Ballantyne-State #1
Sep-98	2,250	Ballantyne-State #3
Oct-98	2,325	William Steinhaus #2
Nov-98	2,250	Ballantyne-State/Steinhaus #H1
Totals	27,375	

ANNEX II
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

List of Subject Interests For Title Opinions

STATE OF NORTH DAKOTA COUNTY OF BOTTINEAU

Lease Schedule

LESSOR	State Land Department, State of North Dakota
LESSEE	Leonard F. Ward and Almer Swanson
DATE	5/29/49
DESCRIPTION	Township 162 North, Range 82 West Section 25: NE1/4 and other lands not subject to this agreement
ACRES	160
BOOK	Z
PAGE	475

LESSOR	William M. Steinhaus (aka W. M. Steinhaus) and Louise Steinhaus, husband and wife
LESSEE	Placid Oil Company
DATE	8/23/73
DESCRIPTION	Township 162 North, Range 81 West Section 30: E1/2NW1/4, Lots 1 and 2, and other lands not subject to this agreement
ACRES	157.31
BOOK	176
PAGE	219

LESSOR Evelyn L. Lorius (fka Evelyn L. Nielsen)
and Fred A. Lorius, wife and husband
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 21

LESSOR R. O. Gothenquist and
Ruth M. Gothenquist, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 41

LESSOR Howard Spoklie
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186
PAGE 294

LESSOR Walter Satrom and
Ruby L. Satrom, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement
ACRES 157.31
BOOK 186

LESSOR Melvin Ballantyne and
 Russell Ballantyne
 LESSEE GeoResources, Inc.
 DATE 9/23/77
 DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2
 ACRES 157.31
 BOOK 207
 PAGE 404

LESSOR Phillips Petroleum Company
 LESSEE GeoResources, Inc.
 DATE 4/20/77
 DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2
 ACRES 157.31
 BOOK 212
 PAGE 25

LESSOR Great American Royalties, Inc.
 LESSEE GeoResources, Inc.
 DATE 9/23/77
 DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2
 ACRES 157.31
 BOOK 254
 PAGE 546

Well Schedule (Wells in the pooled area described as the NE1/4 Sec. 25, T162N R82W and the NW1/4 Sec. 30, T162N R81W containing 317.31 acres)

Well Name	Working Interest	Net Revenue
	Percentage	Interest Percentage
Ballantyne-State #1	100.0	81.40854
Ballantyne-State #3	100.0	81.40854
William Steinhaus #1 SWD	100.0	N/A
William Steinhaus #2	100.0	81.40854
Ballantyne-State/Steinhaus #H1	100.0	81.40854

ANNEX III
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

Form of
Monthly Hydrocarbons Report

In connection with that certain Purchase Agreement For Volumetric Production Payment, dated December 3, 1997, among GEORESOURCES, INC., a Colorado corporation (the "Seller"), and KOCH PRODUCER SERVICES, INC. (the "Purchaser"), Seller does hereby certify that to the Seller's knowledge, information and belief pursuant to Section 5(f)(vii) of the Agreement, as follows (capitalized terms hereinafter used having the meaning specified in the Agreement):

1. Seller is in compliance in all material respects with the terms of the Agreement and the other Production Payment Documents.

2. Schedule I attached hereto sets forth information, data and computations relating to Seller's Hydrocarbons and the Production Payment Hydrocarbons, all of which information, data and computations are true, complete and correct as of the date set forth therein.

IN WITNESS WHEREOF, I have hereunto set hand as of this ___ day of _____, 199__.

GEORESOURCES, INC.

By:
Name:
Title:

Schedule I
to
Monthly Hydrocarbon Report
(as of _____, 199__)

Month	Actual Production Oil (bbls)	Scheduled Oil Volumes (bbls)	Residual Hydrocarbons
Dec-97		2,325	

Jan-98	2,325
Feb-98	2,100
Mar-98	2,325
Apr-98	2,250
May-98	2,325
Jun-98	2,250
Jul-98	2,325
Aug-98	2,325
Sep-98	2,250
Oct-98	2,325
Nov-98	2,250
Totals	27,375

Well Information:

Wells on Production = _____

Well Activity (Drilling, Workover and/or Abandonment):

ANNEX IV
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

Wire Transfer Instructions for Purchase:

FUNDS TO BE PAID TO SELLER SHALL BE WIRE TRANSFERRED TO THE FOLLOWING ACCOUNT:

NAME OF COMPANY	GeoResources, Inc. P.O. Box 1505 Williston, ND 58802 1-701-572-2020
NAME OF BANK	Norwest Bank Minnesota, NA Beneficiary Bank Norwest Bank Montana, NA Billings Downtown Office Billings, Montana
ACCOUNT NUMBER	513527
ABA ROUTING NUMBER	091000019

ANNEX V
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

ANNEX VI
to
Purchase Agreement for Volumetric Production Payment
Insurance Requirements

- 1.0 The Borrower shall maintain the following insurance during the term of the Credit Agreement:
 - 1.1 Worker's Compensation, (including Occupational Disease) insurance in accordance with applicable law and EMPLOYER'S LIABILITY insurance with a minimum limit of \$1,000,000 for any one occurrence.
 - 1.2 Commercial General Liability Insurance, with a minimum combined single limit of \$3,000,000 per occurrence for Bodily Injury and Property Damage and a \$3,000,000 aggregate. This insurance must include Contractual Liability coverage.
 - 1.3 Automobile Liability Insurance, covering all owned, non owned, Leased and hired vehicles with a minimum combined single limit for Bodily Injury and Property Damage of \$1,000,000 per accident. This insurance must include Contractual Liability coverage.

The limits specified in 1.1, 1.2 and 1.3 above may be satisfied with a combination of primary and Umbrella/Excess Insurance.

2.0 Policy Endorsements

- 2.1 The above insurance shall include a requirement that the insurer provide Koch Producer Services with thirty (30) days' written notice prior to the effective date of any cancellation or material change of the insurance.
- 2.2 The insurance specified in Sections 1.2 and 1.3 hereof shall name Koch Producer Services as an additional insured and shall be primary to and not in excess of or contributory with any other insurance available to Koch Producer Services.

3.0 Evidence of Insurance - Borrower shall, before commencement of this Credit Agreement, provide Koch Producer Services with a certificate, satisfactory to Koch Producer Services, evidencing the insurance coverages and endorsements set forth above. If requested by Koch Producer Services, Borrower shall provide Koch Producer Services with certified copies of all policies.

4.0 Waiver of Subrogation

- 4.1 The insurance specified in Section 1.2 and 1.3 hereof shall contain a waiver of the right of subrogation against Koch Producer Services.
- 4.2 The insurance specified in Section 1.1 hereof shall contain a waiver of the right of subrogation against Koch Producer Services and an assignment of statutory lien, if applicable.

ANNEX VII

Definitions

In addition to such other defined terms as may be set forth in this Purchase Agreement and the Conveyance of Volumetric Production Payment as used in the Conveyance and in the Purchase Agreement, the following terms have the following respective meanings:

"Alternate Delivery Point Amount" means, for each Alternate Delivery Point, an amount equal to the product of (A) the actual quantity of Oil (stated in Barrels) delivered to such Alternate Delivery Point during such Month times (B) the actual increased costs and expenses per barrel incurred by or charged to Production Payment Owner resulting from Delivery of Production Payment Hydrocarbons at an Alternate Delivery Point instead of a Delivery Point, including without limitation additional transportation fees charged by third parties in arms length transactions.

"Alternate Delivery Points" means those points (other than a Delivery Point) mutually acceptable to Working Interest Owner and Production Payment Owner at their discretion where Oil is delivered to Production Payment Owner pursuant hereto; and "Alternate Delivery Point" shall mean a single one of such points.

"API" means the American Petroleum Institute.

"ASTM" means the American Society for Testing Materials.

"Barrel of Oil" means 42 United States standard gallons of 231 cubic inches per gallon of Oil at a temperature of 60 degrees Fahrenheit.

"Capitalized Lease Liabilities" means all monetary obligations of the Working Interest Owner under any leasing or similar arrangement which, in accordance with generally accepted accounting principles, would be classified as capitalized leases, and, for purposes of each Production Payment Document, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with generally

accepted accounting principles, and the stated maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

"Contingent Liability" means any agreement, undertaking or arrangement by which Working Interest Owner guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, obligation or any other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount (or maximum principal amount, if larger) of the debt, obligation or other liability guaranteed thereby. Contingent Liability shall not include any amounts by which a Working Interest Owner or operator might become liable solely as a result of obligations concerning operations under an oil and gas operating agreement, or for liabilities concerning any entity for which Production Payment owner must consent to an assignment under Section 20 of the Purchase Agreement.

"Conveyance" means that certain Conveyance of Volumetric Production Payment, dated effective as of December 3, 1997, between the Working Interest Owner and the Production Payment Owner, as it from time to time hereafter may be modified, supplemented or amended.

"Credit Supplier" means any person or entity from time to time financing or refinancing (whether through debt or equity, or both) the acquisition of the production payment or any other assets from time to time owned or held by the Production Payment Owner.

"Crude Oil Purchase Agreement" shall have the meaning set forth in Section 2 of the Purchase Agreement.

"Current Reserve Report" means those certain reports described in Section 3(t) of the Purchase Agreement, or any subsequent reserve reports.

"Default" means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Delivery Points" means those points set forth on Schedule I to the Conveyance with respect to the volumes set forth in such Schedule I for each month; and "Delivery Point" means a single one of such points.

"Effective Date" means December 1, 1997, at 7:00 A.M., determined as to each locality in accordance with the time then generally observed in such locality.

"Environmental Laws" means all applicable federal, state or local statutes, laws, ordinances, codes, rules, policies, directives, orders, judgments, decisions, regulations and guidelines (including consent decrees and administrative orders) relating to public health and safety and protection of the environment.

"Event of Default" means each of the following events and occurrences:

A. Any warranty or representation made by the Working Interest Owner in any Production Payment Document is untrue in any material respect when made.

B. A material default in the due performance by the Working Interest Owner of any covenant or express agreement contained in any Production Payment Document (other than violation of the Production Schedule) and continuation of such material default beyond the applicable grace period expressly granted in such Production Payment Document, if any, with respect thereto.

C. Production of Hydrocarbons from the Subject Interests shall be less than an aggregate of 75 barrels for a period of at least thirty days, unless such reduced production level is caused by a condition of Force Majeure.

D. The resignation, removal or other inability of Working Interest Owner to serve as operator of the Subject Interests or Working Interest Owner's failure to act as operator of the Subject Interests.

E. The Working Interest Owner shall (i) become insolvent or generally fail to pay, or admit in writing his inability or unwillingness to pay, debts as they become due; (ii) apply for, consent to, or acquiesce in, the appointment of a trustee, receiver, sequestrator or other custodian for the Working Interest Owner, the Subject Interests or any other property thereof, or make a general assignment for the benefit of creditors; (iii) in the absence of such application, consent or acquiescence, permit or suffer to exist the appointment of a trustee, receiver, sequestrator or other custodian for the Working Interest Owner, or for a substantial part of the Subject Interests or other property thereof, and such trustee, receiver, sequestrator or other custodian shall not be discharged within 60 days, provided that the Working Interest Owner hereby expressly authorizes the Production Payment Owner to appear in any court conducting any relevant proceeding during such 60-day period to preserve, protect

and defend its rights under this Agreement and the other Production Payment Documents; (iv) permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of such Working Interest Owner and, if any such case or proceeding is not commenced by the Working Interest Owner, such case or proceeding shall be consented to or acquiesced in by the Working Interest Owner, or shall result in the entry of an order for relief or shall remain for 60 days undismissed, provided that the Working Interest Owner hereby expressly authorizes the Production Payment Owner to appear in any court conducting any such case or proceeding during such 60-day period to preserve, protect and defend its rights under this Agreement and the other Production Payment Documents; or (v) take any action authorizing, or in furtherance of, any of the foregoing.

F. The Make-Up Volume Balance shall at any time exceed the then Maximum Makeup Volume Balance Amount unless within five (5) days from receipt of request for payment by Production Payment Owner, the Working Interest Owner shall pay to the Production Payment Owner in additional barrels of Subject Hydrocarbons an amount for application on the Make-Up Volume Balance such that it shall be reduced to an amount not in excess of the then Maximum Make-Up Volume Balance Amount.

G. Any occurrence and continuation, in Production Payment Owner's reasonable opinion, of a Material Negative Reservoir Event.

"Exhibit A" means Exhibit A attached to the Conveyance.

"Expense Amount" means an amount equal to the aggregate of all expenses paid or incurred by Production Payment Owner during such Month which consist of, or are incidental to, without duplication, (1) complete discharge and/or reconveyance of the Production Payment, including, without limitation, the reasonable fees and out-of-pocket expenses paid by Production Payment Owner of accountants and counsel employed by Production Payment Owner in connection therewith; (2) any Production Expenses reasonably incurred by the Production Payment Owner in paying or performing any obligations on behalf of Working Interest Owner hereunder or under any of the other Production Payment Documents; (3) any costs, expenses or other amounts reasonably incurred by the Production Payment Owner in paying or performing any obligations on behalf of Working Interest Owner hereunder or under any of the other Production Payment Documents; (4) actual transaction costs associated with cancellation of hedging and futures contracts, including brokers fees, exchange expenses, document expenses and related charges, or (5) actual costs resulting from transportation fee adjustments charged by third parties in arms length transactions, relating to any changes in delivery times or locations, which are not included in the Alternate

Delivery Point Amount.

"Force Majeure" means acts of God, governmental action, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, storm warnings, floods, washouts, freezes, arrests and restraints of governments and people, civil disturbances, explosions, breakage of, or accidents to, lines of pipe or subsurface storage caverns regardless of how caused, mechanical failure of machinery or equipment (unless such mechanical failure is as a result of failure of Working Interest Owner to maintain such equipment as required pursuant to Section 5(r)(iii) of the Purchase Agreement), transportation curtailment and any other causes, whether of the kind herein enumerated or otherwise and whether foreseeable or unforeseeable, not within the reasonable control of the party claiming suspension (including, but not limited to, acts of negligence or willful misconduct of third parties) and which by the exercise of due diligence such party is unable to prevent or overcome; provided, however, that "force majeure" shall not include any failure or inadequacy of reserves or a failure to pay monetary obligations. A condition of force majeure shall continue for so long as a party is unable to overcome the resulting consequences through exercise of reasonable diligence.

"GAAP" shall have the meaning set forth in Section 5(1) of the Purchase Agreement.

"Hazardous Material" means (i) any "hazardous substance", as defined by CERCLA; (ii) any "hazardous waste", as defined by the Resource Conservation and Recovery Act, as amended; and (iii) any pollutant or contaminant or hazardous, extremely hazardous, dangerous or toxic chemical, material or substance within the meaning of any applicable federal, state or local law, regulation, ordinance or requirement (including consent decrees and administrative orders) relating to or imposing liability or standards of conduct concerning any hazardous, toxic or dangerous waste, substance or material, all as amended or hereafter amended.

"Highest Lawful Rate" shall have the meaning set forth in Section 22 of the Purchase Agreement.

"Hydrocarbons" means, collectively, crude oil, condensate and other liquid hydrocarbons, but not natural gas or liquid products extracted from gas by means other than conventional field separation.

"Impermissible Qualification" means, relative to the opinion or certification of any independent public accountant as to any financial statement of the Working Interest Owner, any qualification or exception to such opinion or certification: (a) which is of a "going concern" or similar nature; (b) which relates to the limited scope of examination of matters relevant to such financial statement; or (c) which relates to the treatment or classification of any item in such financial statement

and which, as a condition to its removal, would require an adjustment to such item the effect of which would be to cause the Working Interest Owner to be in default of any of his financial covenants, if any.

"Indebtedness" means, with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments; (b) all obligations, contingent or otherwise, relative to the face amount of all letters of credit, whether or not drawn, and banker's acceptances issued for the account of such Person; (c) all obligations of such Person as lessee under leases which have been or should be, in accordance with generally accepted accounting principles, recorded as Capitalized Lease Liabilities; (d) all other items which, in accordance with generally accepted accounting principles, would be included as liabilities on the liability side of the balance sheet of such Person as of the date at which Indebtedness is to be determined; (e) whether or not so included as liabilities in accordance with generally accepted accounting principles, all obligations of such Person to pay the deferred purchase price of property or services, and indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse; and (f) all Contingent Liabilities of such Person in respect of any of the foregoing.

"Indemnified Amount" means an amount equal to the aggregate amount of all Indemnified Liabilities (as defined in Section 25 of the Purchase Agreement) that become owing to any Indemnified Party during such Month under the Purchase Agreement which have not previously been paid by the Working Interest Owner;

"Indemnified Party" means the Production Payment Owner, any Credit Supplier, and any of their respective members, officers, employees, agents, shareholders, directors, advisors or affiliates who are entitled to assert an indemnity under the provisions of this Purchase Agreement.

"Independent Reserve Report" has the meaning set forth in Section 5(f) (vi) of the Purchase Agreement.

"Index Price" in any Month shall be a price per Barrel of Oil for said Month equal to Koch Oil Company's posting for North Dakota sour Crude Oil, gravity delivered plus \$2.75, assumed to be priced in equal daily quantities.

"Interest Amount" means, for any Month, the sum of the amounts of interest which would have accrued each day during such Month (assuming interest at the Specified Rate in effect at the end of such day) on an amount equal to the sum, without duplication, on such day of (i) the Make-Up Volume Balance at the beginning of such Month plus (ii) the sum

of each Tax Amount, Expense Amount, Volumetric Shortfall Amount, the Alternate Delivery Point Amount, Indemnified Amount, Post Default Amount and Quality Adjustment Amount which have been paid or incurred by Production Payment Owner during such Month minus (iii) the amounts, if any, in respect of the amounts referred to in the foregoing clauses (i) and (ii) for which the Working Interest Owner shall have reimbursed the Production Payment Owner in cash during such Month; provided that solely for the purposes of determining the Interest Amount, in respect of any Month on or after the time of an acceleration of the Scheduled Volumes under Section 15 of the Purchase Agreement, the Post Default Amount shall be deemed not to include amounts, if any, accruing in respect of Scheduled Volumes prior to the time such volumes are scheduled to be delivered under Schedule I to the Conveyance.

"Lease Use Hydrocarbons" means any Hydrocarbons which are unavoidably lost in the production thereof or used by Working Interest Owner or the operator of the Subject Interests in conformity with good field practices in drilling or producing operations (including gas injection, secondary recovery, pressure maintenance, repressuring or cycling operations) conducted for the purpose of producing Hydrocarbons from the Subject Interests, but only for so long as and to the extent such Hydrocarbons are so used.

"Make-Up Delivery Amount" means an amount equal to the product of (A) the positive difference, if any, of (i) the actual quantity of Production Payment Hydrocarbons delivered to Production Payment Owner during such Month, minus (ii) the Scheduled Volumes to be delivered during such Month, times (B) the Index Price for the Month in which the Oil is delivered.

"Make-Up Volume Balance" means, at the end of any Month, the sum, without duplication, of (A) the Tax Amount, plus (B) the Expense Amount, plus (C) the Volumetric Shortfall Amount, plus (D) the Alternate Delivery Point Amount, plus (E) the Indemnified Amount, plus (F) the Quality Adjustment Amount for such Month, plus (G) the Post Default Amount for such Month, plus (H) an amount equal to the Interest Amount for such Month, plus (I) the Make-Up Volume balance as of the beginning of such Month, minus (J) the Make-Up Delivery Amount, if any, in respect of such Month, and (K) minus amounts for which Working Interest Owner has reimbursed Production Payment Owner as provided in the following proviso; provided, however, that at his option, the Working Interest Owner may pay to Production Payment Owner, in cash, all or any portion of the foregoing amounts for such Month or any previous Month, which cash payments shall directly reduce the Make-Up Volume Balance, and provided further that for purposes hereof, the Make-Up Volume Balance as of the date hereof shall be deemed to be zero; and provided further that notwithstanding anything to the contrary herein, the Make-Up Volume Balance shall never be an amount less than zero.

"Make-Up Volumes" means those volumes which have been delivered each Month to reduce the Make-Up Volume Balance.

"Material Negative Reservoir Event" means any reservoir discrepancy or problem which results in or could reasonably be expected to result in a materially downward reevaluation of reserves in the aggregate for the life of the reservoirs, as determined using the standards provided in the Independent Reserve Report delivered pursuant to Section 5(f)(vi) of the Purchase Agreement, loss of reservoir pressure, reservoir damage, or similar problem or matter which could reasonably be expected to impair the Working Interest Owner's ability to produce and deliver the Production Payment Hydrocarbons in accordance with the Production Schedule.

"Maximum Make-Up Volume" means in respect of any Month that volume of production from the Subject Interests for such Month equal to the positive difference, if any, of (i) 75% of the actual volumes of oil produced from the Subject Interests during such Month minus (ii) the Scheduled Volumes for such Month.

"Maximum Make-Up Volume Balance Amount" means \$100,000.

"Memorandum of Agreement relating to Purchase of Crude Oil" means that certain Memorandum of Agreement relating to Purchase of Crude Oil, in form and substance acceptable to Purchaser, as it from time to time hereafter may be modified, supplemented or amended.

"Month" means a calendar month.

"Non-Consent Hydrocarbons" means those Hydrocarbons produced from a well during the applicable period of recoupment or reimbursement pursuant to a non-consent provision covering the relevant well or wells, which Hydrocarbons have been relinquished to the consenting party or participating party under the terms of such non-consent provision as the result of the election by Working Interest Owner not to participate in the particular operation; provided such election by Working Interest Owner has been made in good faith and as a prudent operator.

"Oil" means, collectively, crude oil, condensate and other liquid hydrocarbons but not natural gas or liquid products extracted from gas by means other than conventional field separation.

"Oil Buyer" means Koch Oil Company, or its assigns as purchaser under that Crude Oil Purchase Agreement, dated effective as of December 1, 1997, in which Working Interest Owner is the seller.

"Oil and gas leases" shall include oil, gas and mineral leases and shall also include subleases and assignments of operating rights, but shall not include operating rights under a standard onshore oil and gas operating agreement.

"Operating Taxes and Fees" means the following taxes and fees (and any penalties and interest associated therewith), without duplication,

which relate to the Subject Interests: (i) real property taxes, (ii) personal property taxes, (iii) renewal fees for permits, (iv) sales taxes and (v) renewal fees for business licenses or other permits that are necessary for the Working Interest Owner to operate and to perform his duties under any of the Production Payment Documents.

"Permitted Liens" means (1) taxes constituting a lien but not yet due and payable or which are being contested diligently, in good faith; (2) defects or irregularities in title, and liens, charges or encumbrances, which are not such as to interfere materially with the development, operation or value of the Subject Interests and not such as materially to impair title thereto; (3) the liens, if any, granted in favor of any Credit Supplier by Production Payment Owner; (4) any lien or encumbrance created as a consequence of the execution and delivery of the Conveyance; (5) operators liens and materialmen and mechanics liens arising out of normal operation of the Subject Interests, securing amounts which are not more than 60 days past due provided the Persons entitled to the benefits of such liens are not exercising remedies in respect thereof other than the making of demands or the giving or filing of notices required to perfect such liens or suing for payment of the amounts secured thereby; (6) royalty burdens and similar encumbrances on the Subject Interests in existence on the Effective Date, and which are reflected in the net revenue interests listed on Exhibit "A" of the Conveyance; (7) liens being contested by Working Interest Owner in good faith in such manner as not to jeopardize Production Payment Owner's rights in and to the Production Payment and the Production Payment Hydrocarbons provided the Persons entitled to the benefits of such liens are not executing on such liens or any judgments in respect thereof; and (8) those liens consented to in writing by Production Payment Owner.

"Person" means any natural person, corporation, partnership, joint venture, trust, firm, association, government, governmental agency or any other entity, whether acting in an individual, fiduciary or other capacity.

"Plan of Development" means the Plan of Development attached as Schedule III to the Purchase Agreement.

"Post Default Amount" means an amount equal to those additional amounts which Working Interest Owner may owe Production Payment Owner under Paragraph C of Section 15 of the Purchase Agreement after an Event of Default under the Purchase Agreement, which has not been timely cured after proper notice of the same, as provided in Section 15 of the Purchase Agreement.

"Prime Rate" means a rate of interest per annum equal to the "Prime Rate" as correctly published in the "Money Rates" section of the "Money and Investment" section of the Wall Street Journal; provided that with respect to Saturday and Sunday or any other day on which such quotation is unavailable, the quotation available on the last preceding day on which the Wall Street Journal was published shall be used;

provided, further, that if such quotation is no longer available, then a quotation from another publication reasonably designated by Production Payment Owner and accepted by Working Interest Owner (which acceptance shall not be unreasonably withheld) shall be used.

"Production Expenses" means for purposes of the Production Payment Documents for any period, without duplication, all fees, expenses and other obligations incurred in the ordinary course of business of the Working Interest Owner or in connection with operating the Subject Interests including, without limitation, (i) rental payments under site leases and leases of equipment or vehicles, (ii) utilities, (iii) insurance premiums in connection with the Subject Interests or any equipment located thereon and utilized in operating, producing, reworking or maintaining the Subject Interests, (iv) fees for accounting, billing or other administrative services provided by third parties, including, without limitation, the preparation of any reserve report, including the Independent Reserve Report, (v) expenses for office supplies and equipment, (vi) all (A) compensation (including without limitation, wages, bonuses, vacation pay or pay for other compensated absences), (B) withholding, social security and other payroll burdens (including, without limitation, FICA and employment taxes), (C) workers compensation insurance deposits and premiums and the costs of claims, (D) benefits and contributions (including, without limitation, medical insurance benefits), and all accruals with respect to any of the foregoing, to the extent they relate to employees of the Working Interest Owner, (vii) field expenses of lifting, handling, gathering, producing, treating, storing, marketing or gathering of the Subject Hydrocarbons, (viii) overhead chargeable under applicable operating agreements covering the Subject Interests, (ix) compensation to well operators, consultants and others necessary for and related to operating, producing, reworking and maintaining the Subject Interests, (x) costs of plugging and abandoning wells, (xi) shut-in, minimum or advance royalties and (xii) all other fees and expenses directly associated with or arising from the operations of the Working Interest Owner or in connection with the Subject Interests. "Production Expenses" shall not include Working Interest Owner Operating Taxes and Fees or Taxes and Fees. "Production Expenses" shall not include any amounts in respect of Capitalized Lease Liabilities, capital expenditures or expenses that are classified as intangible drilling expenses under federal income tax and regulations unless failure to pay such Capitalized Lease Liabilities, capital expenditures or expenses, as the case may be, might entitle any Person to assert a lien or claim in respect thereof against all or any portion of the Production Payment or the Subject Interests (whether or not such lien or claim is in fact so asserted).

"Production Payment" has the meaning stated in Section 1 of the Conveyance.

"Production Payment Documents" means the Conveyance, the Purchase Agreement, the Memorandum of Agreement relating to Purchase of Crude Oil

and any other document or agreement executed in connection with such agreements, as each from time to time hereafter may be modified, supplemented or amended.

"Production Payment Hydrocarbons" means the Hydrocarbons conveyed to Production Payment Owner pursuant to the Conveyance and shall include Scheduled Volumes and Make-Up Volumes, as the same may be adjusted from time to time as set forth in Sections 1 and 2 of the Conveyance, which shall accrue or be attributable to the Production Payment; provided, however, that Production Payment Hydrocarbons shall not include (i) Non-Consent Hydrocarbons where the Working Interest Owner is the non-consenting party or (ii) Lease Use Hydrocarbons.

"Production Payment Owner" is defined in the Conveyance and shall include successors and assigns.

"Production Sale Contracts" means contracts for the sale of Subject Hydrocarbons now in effect or hereafter entered into by Working Interest Owner with Production Payment Owner's written consent.

"Production Schedule" means the schedule of production relating to the Production Payment Hydrocarbons set forth in Schedule I to the Conveyance.

"Production Taxes" means (1) ad valorem taxes (or taxes imposed in lieu thereof) imposed or assessed upon the Production Payment or any mortgage thereof, or upon the Production Payment Hydrocarbons; (2) severance, gross production, occupation, extraction, gathering, and other taxes and assessments of any kind (other than taxes on or measured by the income of Production Payment Owner and other than franchise taxes of Production Payment Owner) imposed or assessed with respect to or measured by or charged against the Production Payment or the Production Payment Hydrocarbons; and (3) all other taxes required by law to be deducted from the proceeds of the Production Payment Hydrocarbons.

"Proved Developed Producing Reserves" means, with respect to the Subject Interests, those quantities of Hydrocarbons, estimated with reasonable certainty, as demonstrated by geological and engineering data set forth in the Current Reserve Report or, if applicable, the then most recent Independent Reserve Report delivered pursuant to Section 5(f)(vi) of the Purchase Agreement, to be economically recoverable based upon the prices set forth in that Independent Reserve Report from the Subject Interests by standard producing methods under existing regulatory practices and economic conditions using existing conventional equipment and operating methods from existing completion intervals open for production on the effective date of the evaluation.

"Purchase Agreement" means that certain Purchase Agreement for Volumetric Production Payment, dated as of December 3, 1997, between the Working Interest Owner and the Production Payment Owner, as from time to time hereafter may be modified, supplemented or amended.

"Purchaser" means the Production Payment Owner and shall include its successors and assigns.

"Quality Adjustment Amount" means, for any Month, an amount equal to the sum of all penalties and deductions for nonconformity of Oil delivered at an Alternate Delivery Point to the Quality Standards, plus the sum of all reasonable costs and expenses incurred or paid by Production Payment Owner for treating Production Payment Hydrocarbons delivered during such Month to satisfy such Quality Standards.

"Quality Standards" means the quality requirements and specifications set forth in Schedule I to the Purchase Agreement with respect to Oil at each Delivery Point or Alternate Delivery Point, as the same may be modified from time to time.

"Release" means a "release", as such term is defined in CERCLA and any other spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing of a substance into the environment.

"Residual Hydrocarbons" means for any period of time the volume of all Hydrocarbons produced from the Subject Interests less the volume of Production Payment Hydrocarbons delivered in kind to the Production Payment Owner during the same period of time.

"Resource Conservation and Recovery Act" means the Resource Conservation and Recovery Act, 42 U.S.C. Section 690, et seq., as in effect from time to time.

"Scheduled Volumes" means the number of Barrels of Oil with respect to any Delivery Point set forth in the Production Schedule hereto, as such amounts may be rescheduled as provided in the Conveyance or the Purchase Agreement.

"Seller" is defined in the Purchase Agreement, and shall mean Working Interest Owner and its successors and assigns.

"Servicer" shall have the meaning set forth in Section 26 of the Purchase Agreement.

"Specified Rate" shall have the meaning set forth in Section 21 of the Purchase Agreement.

"Subject Hydrocarbons" means all Hydrocarbons in and under, and which may be produced and saved from, and which shall accrue or be attributable to the Subject Interests and which are produced after the Effective Date (other than Lease Use Hydrocarbons and Non-Consent Hydrocarbons where Working Interest Owner is the non-consenting party).

"Subject Hydrocarbons" and "Production Payment Hydrocarbons,"

respectively, shall be deemed to include the proceeds of such Hydrocarbons.

"Subject Interests" means Working Interest Owner's right, title and interest in the Oil and gas leases and the leasehold working interests, described in Exhibit A to the Conveyance, together with all Hydrocarbons severed during the term of this Production Payment which are attributable to such leases and interests; together with Working Interest Owner's right, title and interest, if any, in, to and under, or derived from, all of the valid Subject Hydrocarbons unitization and pooling agreements which are described in such Exhibit A or which relate to any of the properties and interests described in such Exhibit A. The term "Subject Interest," when used with reference to any particular Subject Interest, shall mean and include Working Interest Owner's right, title and interest in (i) such Subject Interest as the same may be enlarged or diminished by the provisions of any contract or other instrument described in Exhibit A to the Conveyance, or by the removal of any charges or encumbrances to which such Subject Interest is subject, (ii) any and all renewals, replacements and extensions of such Subject Interest, or other interests in the Hydrocarbons in, under and that may be produced from lands comprising a portion of the Subject Interests acquired by Working Interest Owner during the term hereof, (iii) all contracts supplemental to or amendatory of or in substitution for the contracts described above insofar as the same relate to such Subject Interest, and (iv) all rights, titles and interests accruing or attributable to such Subject Interest by virtue of its being included in any unit.

"Tax Amount" means an amount equal to the aggregate of all amounts, including interest and penalties, if any, relating thereto, paid by Production Payment Owner, in such Month, and which have not been paid by Working Interest Owner pursuant to the provisions of Section 5 of the Purchase Agreement, on account of, without duplication, (1) Production Taxes, (2) any excise tax imposed on or assessed with respect to or measured by or charged against the Production Payment or the Production Payment Hydrocarbons, or (3) any sales or gross receipts taxes, which are imposed on Production Payment Owner by any state or federal governmental unit, or any political subdivision thereof, in which any of the Subject Interests are located, and which are payable on account of Production Payment Owner's ownership of the Production Payment or receipt of Production Payment Hydrocarbons, provided however, that the Tax Amount shall not include any taxes associated with the handling, transportation, refining, purchase or sale of Production Payment Hydrocarbons after they have been delivered to the credit of Production Payment Owner.

"Taxes and Fees" means with respect to the Working Interest Owner the following taxes, fees (including license fees), charges, duties, levies or other assessments, and all penalties and interest associated therewith, imposed by any governmental authority on the Working Interest Owner, without duplication: (i) income tax (whether federal, state or

local or otherwise), (ii) excise, excess profit, and occupational taxes, and (iii) all other taxes payable by the Working Interest Owner which are based in whole or in part on the Working Interest Owner's income or capitalization or which are required to be paid to maintain the privilege and power of the Working Interest Owner to operate his business.

"Trading Day" means any day on which futures contracts are traded in the New York Mercantile Exchange.

"Trading Month" means each monthly delivery period covered by a distinct set of futures contracts traded in the New York Mercantile Exchange or equivalent contracts.

"Volumetric Shortfall" shall have occurred on the last day of each Month during which the actual quantities of Oil delivered to a Delivery Point or Alternate Delivery Point, as the case may be, are less than the Scheduled Volumes for such applicable Delivery Point or Alternate Delivery Point for such period of time.

"Volumetric Shortfall Amount" means an amount equal to for each Delivery Point, the product of (A) the positive difference, if any, of (i) the Scheduled Volumes to be delivered to such Delivery Point for the Month in which a Volumetric Shortfall occurs minus (ii) the actual quantity of Oil delivered to such respective Delivery Point for the Month in which a Volumetric Shortfall occurs, times (B) the Index Price for the Month in which a Volumetric Shortfall occurs.

"Working Interest Owner" is defined in the Conveyance and shall include successors and assigns.

ANNEX VIII
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION PAYMENT

Form of Purchaser's Monthly Report

(as of _____, 199__)

EXAMPLE

1997	Actual	Scheduled	Volumetric	Make-Up	*Index Price
	Volume	Volumes	Shortfall	Volumes	
			Volumes (-)	(+)	
	(a)	(b)	(c) = (a) - (b)	(d) = (a) - (b)	(e)
Month	Oil (bbls)	Oil (bbls)	Oil (bbls)	Oil (bbls)	(\$/bbl)

Jan	30,000	30,000			
Feb	29,000	30,000	-1,000		\$16
Mar	28,000	30,000	-2,000		\$17
Apr	30,000	30,000			
May	30,000	30,000			
Jun	30,000	30,000			
July	31,000	30,000		1,000	\$15
Aug	32,000	30,000		2,000	\$16

\$ Expenses

Tax Amount	Expense Amount	Volumetric Shortfall Amount	Alternate Delivery Point Amount	Indemnified Amount	Quality Adjustment Amount	Post Default Amount
(f)	(g)	(h)=(c) X (e)	(i)	(j)	(k)	(l)
		\$0				
		(\$16,000)				
		(\$34,000)				
	(\$10,000)	\$0				
		\$0				
		\$0				
		\$0				
		\$0				
		\$0				

Make-Up Delivery Amount	Make-Up Volume Balance	Interest Amount	Make-Up Volume Balance
(d) X (e)	(f) : (m)	(o)	(p) = (n) + (o)
\$0	\$	\$0.00	\$0.00
\$0	(\$16,000)	(\$6.47)	(\$16,006.47)
\$0	(\$34,000)	(\$214.26)	(\$50,220.72)
\$0	(\$10,000)	(\$730.07)	(\$60,950.80)
\$0	\$0	(\$763.55)	(\$61,714.35)
\$0	\$0	(\$748.18)	(\$62,462.53)
\$15,000	\$15,000	(\$679.45)	(\$48,141.98)
\$32,000	\$32,000	(\$383.26)	(\$16,525.24)

* "Index Price" shall mean, as used in this Schedule I to Monthly Hydrocarbon Report, the Index Price, as applicable, used in the calculation of either the Volumetric Shortfall Amount or Make-Up Delivery Amount, as applicable, as provided for in the Purchase Agreement.

Assumptions:

1. Column b Scheduled Volumes represent Volumetric Production Payment Volumes that Seller is obligated to deliver to Purchaser.
2. Column a represents Actual Volumes delivered by Seller. IN February and March, Seller does not deliver all of Scheduled Volumes resulting in Volumetric Shortfall Volumes (column c). Purchaser may go into the market and purchase an amount equal to Volumetric Shortfall and pay an Index Price at time of purchase (column e). Assuming Purchaser does purchase barrels in open market, Seller is charged Volumetric Shortfall Amount (column h) which is added to Make-Up Volume Balance (column p).
3. Seller does not obtain independent reserve report. Purchaser pays \$10,000 for reserve report on April 1 and charges Seller for the Expense Amount (column g) which is added to Make-Up Volume Balance (column p).
4. Seller is charged interest (column o) on Make-Up Volume Balance. Interest is calculated at floating Prime +6% on an actual day/365 day basis (i.e. 14.75% assumed in this example). Since Seller has until last day of month to deliver Scheduled Volumes, interest is charged for last day of month only in month when a Volumetric Shortfall occurs (i.e. February interest expense is calculated as follows: Volumetric Shortfall amount of \$16,000 (column h) multiplied times 14.75% interest rate divided by 365 days multiplied times 1 day (last day of February) equals \$6.47 February interest expense (column o). March Interest Amount includes interest for the full month on previous month's Make-Up Volume Balance plus one day of interest on March Volumetric Shortfall.
5. Seller delivers Make-Up Volumes on July 15 and August 15 (column d) and receives a credit for these volumes at the Index Price (column e). Total credit amount is equal to Make-Up Delivery Amount (column m). Make-Up Volume Balance (column p) is reduced by Make-Up Volume Deliver Amount (column m).

NOTE THIS EXAMPLE IS FOR ILLUSTRATIVE PURPOSES ONLY; SELLER MAY BE LIABLE FOR SWAP BREAKAGE COSTS ALSO.

SCHEDULE I
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCT PAYMENT

QUALITY STANDARDS

Oil:

The Oil delivered to the Production Payment Owner as part of the Production Payment Hydrocarbons shall in all events be of such quality that it shall meet at least the following specifications:

All Oil produced from the Subject Interests and delivered at the Delivery Point shall satisfy the quality standards and the specifications of Koch Pipeline Company, L.P. and all other applicable carriers. Working Interest Owner agrees that Production Payment Owner or its affiliates may conduct any sampling and testing of the quality of such Oil from the Subject Interests.

SCHEDULE II
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION

Exceptions to Representations

1. Phillips Petroleum Company, a Delaware corporation, has a preferential purchase right in effect relating to the Subject Interests.

SCHEDULE III
TO
PURCHASE AGREEMENT FOR VOLUMETRIC PRODUCTION

Plan of Development

In August 1997, GeoResources initiated production from a new horizontal well named the Balantyne-State/Steinhaus H1 (BSS H1) located in the Wayne Field of Bottineau County, North Dakota.

The BSS H1 and 3 other producing vertical wells make up a 320 acre production unit spaced and pooled such that all ownership is common in all the wells and all production is treated at one common tank battery. Average daily production from this 4-well property (the BSS Property) for October 1997 was 224 BOPD. GeoResources' plan is to commit the BSS Property to a 75 BOPD volume production payment for a term of one year (27,375 bbls) to raise capital to drill a 4th horizontal well on our Oscar Fossum lease located in the same field. Our working interest in that lease is 67% and our share of drilling and completion costs is AFE'd at about \$400,000. GeoResources has contracted the Oscar Fossum H4 well to Caza Drilling Company and it is scheduled to be drilled by Caza Rig 43 as soon as that rig finishes 2 wells scheduled ahead of ours. Our expectation is that the rig will be available for us about the end of November 1997.

Move in and rig up will only take 2 days so a reasonable expectation for spudding this well would be Monday, December 15, 1997. Drilling should take about 21 days. After a short break for the Christmas and New Year's holidays, a completion would begin about Monday, January 19th. The completion and setting of a pumping unit should be finished in one week. The flowline connecting the Fossum H4 to the central battery has already been laid in the ground so that work would not have to be done in winter weather conditions.

Production from the Oscar Fossum H4 should begin January 31, 1998.

CRUDE OIL PURCHASE AGREEMENT

Purchased from:
GeoResources, Inc.
1407 West Dakota Parkway, Suite 1-B
Williston, ND 58801

Date: December 2, 1997
Results of Discussions
between Blaine Parrott and
Jeff Vickers

Koch Contract # 36123

Gentlemen,

This document, when executed by the parties, will constitute an Agreement between GeoResources, Inc. ("GeoResources") and Koch Oil Company ("Koch"), covering the purchase and sale of crude oil and/or condensate under the following terms and conditions:

1. Definitions. When used in this Agreement, the terms listed below have the following meanings:

"Affiliate" - means a corporation controlling, controlled by or under common control with either Koch or GeoResources, as the case may be.

"Agreement" - means this contract and any exhibits or amendments.

"Business Day" - means any day in which the offices of Koch and GeoResources are both open for business.

"VPP Agreement"- means that certain agreement executed contemporaneously herewith between Koch Producer Services Inc. and GeoResources for the funding of the properties listed on Exhibit "A".

"Crude Oil" - means crude oil and/or condensate.

2. Term: The term of this Agreement shall begin effective at 7:00 a.m. on December 1, 1997, and shall end at 7:00 a.m. on November 30, 2004.

(a) From December 1, 1997 through November 30, 1998, and continuing on a month to month basis thereafter until terminated by Koch or GeoResources on thirty (30) days advance written notice to the other (hereinafter, the "Initial Term"), Koch agrees to buy, and GeoResources agrees to sell, all Crude Oil produced by GeoResources from the properties listed on Exhibit "A" on the terms and conditions more fully set out in paragraphs subsequent to this Paragraph 2 of this Agreement. The foregoing is subject to the pre-existing rights of Phillips Petroleum Company to have

call on the referenced Crude Oil.

(b) Upon the conclusion of the Initial Term as provided for in Paragraph 2(a) above and until the end of the term of this Agreement, GeoResources agrees to sell to Koch all Crude Oil produced by GeoResources from the properties listed on Exhibit "A" at a price and on such terms as are mutually agreeable between the parties. Should the parties not be able to mutually agree to a price and/or term for the purchase and sale of Crude Oil produced by GeoResources from the properties listed on Exhibit "A", GeoResources shall be entitled to receive a bona fide written offer from an unaffiliated third party to purchase such Crude Oil on an outright basis. The bona fide written offer must be made for the outright purchase of the Crude Oil production, and any offers for transportation, buy/sell, exchange, or similar types of agreements will not be considered a comparable bona fide offer. Upon receipt of such a bona fide written offer from an unaffiliated third party to purchase Crude Oil production from the properties listed on Exhibit "A" that GeoResources is willing to accept, GeoResources agrees to immediately (i) forward to Koch the written offer from the third party setting forth the terms and provisions of such offer including the basis for determination of the price; and (ii) forward to Koch, at the same time as the writing required in (i) above is sent, copies of all information supplied by and between GeoResources and such third party. The information and materials addressed in (i) and (ii) above shall hereinafter collectively be referred to as the "Notification". Upon Koch's receipt of the Notification, Koch shall then have an optional right, for a period of ten (10) Business Days thereafter, to either match the offer and purchase the Crude Oil on the same terms and conditions and for the same volume as offered by such third party, or make a better offer than that submitted by such third party. In the event Koch elects not to match or better the third party's written offer within the required time period, GeoResources shall have the right, which must be exercised within ten (10) Business Days following the expiration of Koch's ten (10) Business Day period, to enter into an agreement with the third party that made the offer containing the same terms and provisions that were included in the Notification; provided, however, that GeoResources may not enter into an agreement with any third party for a term longer than twelve (12) months, after which term Koch may again exercise its rights as stated in this Paragraph 2(b). If GeoResources does not enter into an agreement with a third party within the ten (10) Business Day period following the expiration of Koch's ten (10) Business Day period to match or make a better offer, or if the third party purchase agreement fails to contain the same terms and provisions as contained in the Notification, or at the end of any contract term with a third party, GeoResources shall be required to send a new Notification to Koch and allow Koch the right to match or make a better offer than the offer submitted by such third party; all in the manner specified above.

3. Quantity: During the Initial Term of this Agreement, Koch shall purchase and GeoResources shall sell all Crude Oil produced by

GeoResources from the properties listed on Exhibit "A".

4. Price: For each barrel of Crude Oil purchased by Koch from GeoResources during the Initial Term, Koch shall pay a price equal to Koch's Posting for North Dakota Sour Crude Oil, gravity delivered, plus \$2.75. For purpose of pricing, all volumes purchased and sold hereunder will be assumed to have been delivered in Equal Daily Quantities (EDQ).
5. Crude Type: The crude oil purchased by Koch at the lease shall be various domestic lease crudes.
6. Delivery/Title Risk of Loss: GeoResources shall deliver all Crude Oil purchased by Koch hereunder from tankage and/or through mutually acceptable meters located at the facilities of GeoResources on the properties listed on Exhibit "A." Title and risk of loss shall pass from GeoResources to Koch as the crude oil passes the outlet flange of the lease tankage or meter.
7. Quality: All crude oil produced from each lease and purchased hereunder shall meet the specifications of all applicable carriers.
8. Payment: Payment for the Crude Oil shall be made not later than twenty days after the end of the month in which delivery of Crude Oil was made. Koch shall hold the basic division order for the purchase of Crude Oil hereunder. All payments shall be made via wire net out in accordance with that certain Net Out Agreement between GeoResources, Inc. and Koch Oil Company dated August 21, 1992.
9. Miscellaneous Provisions.
 - a. Amendments and Waiver. No amendment or waiver of any provision of this Agreement, nor consent to any departure by either party therefrom, shall be effective unless the same is in writing and signed by Koch and GeoResources, and such waiver or consent shall be effective only in the specific instance and for the specified purpose for which given.
 - b. Assignment. Either party may assign this Agreement in whole or in part to an Affiliate or may cause any or all of its obligations to be performed by an Affiliate. Neither party will assign its rights or delegate its duties under this Agreement in whole or in part to a non-Affiliate, without the prior written consent of the other party, which consent will not be unreasonably withheld. GeoResources' rights and obligations stated under this Agreement shall run with the properties listed on Exhibit "A" and shall be

binding on the successors and assigns of GeoResources.

- c. Notice. Any notices required or desired to be given hereunder shall be in writing and shall be addressed as follows:

If to Koch:
Koch Oil Company
4111 E. 37th St. North, P.O. Box 2256
Wichita, Kansas 67201
Attn: President
Facsimile: (316) 828-8245

If to GeoResources:
GeoResources, Inc.
1407 West Dakota Parkway, Suite 1-B
Williston, ND 58801
Attn: Jeff Vickers, President
Facsimile: 701-572-0277

Notices provided hereunder shall be deemed to have been received when sent, if provided by telefax or hand, or when actually received, if provided by first class mail. In the event that any such notice is received after 4:00 PM local time on a Business Day or is received on a non-Business Day, delivery shall be deemed to have been received on the next Business Day.

- d. No Third Party Beneficiaries. Nothing in the Agreement is intended to inure to the benefit of any third party, and this Agreement shall not create any third party beneficiaries.
- e. Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Kansas, without reference to conflict of laws provisions that may direct the application of laws other than the state of Kansas.
- f. Construction. This Agreement has been negotiated and prepared at the joint request, direction and construction of the parties, at arms length, with the advice and participation of counsel for each party, and will be interpreted in accordance with its terms without favor to any party.
- g. Severability. If any provision or any portion of any provision of this Agreement or the application of any such provision or any portion thereof to any person or circumstance, is held invalid or unenforceable, the remaining portion of such provision and the remaining provisions shall remain in full force and effect.
- h. Entire Agreement. This Agreement, its exhibits and Koch's attached General Provisions dated 8/96 constitute the entire agreement between the parties with respect to the purchase of Crude Oil from GeoResources. All prior agreements with respect to the

purchase of Crude Oil from the properties listed on Exhibit "A" are hereby superseded and replaced. Where the General Provisions are inconsistent with the specific provisions of this Agreement, this Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Crude Oil Purchase Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KOCH OIL COMPANY

By: ___/s/ James B. Urban_____
Printed Name: James B. Urban
Title: Vice President,
Koch Oil Company
Date: 12/8/97

GEORESOURCES, INC.

By: ___/s/ J. P. Vickers_____
Printed Name: J. P. Vickers
Title: President
Date: 12/3/97
Tax I.D. Number ___84-0505444___

EXHIBIT "A"

LSE NBR	PROPERTY NAME	COUNTY	ST
0043782	Ballantyne-State 3	Bottineau	ND
0043782	William Steinhaus 2	Bottineau	ND
0043782	Ballantyne-State 1	Bottineau	ND
0043782	Ballantyne-State/Steinhaus H1	Bottineau	ND

PURCHASE AGREEMENT
GENERAL PROVISIONS

1. MEASUREMENT AND TESTS: All measurements hereunder shall represent one

hundred percent (100%) volume, consisting of United States barrels of forty-two (42) gallons, the quantity and gravity of which will be adjusted to sixty degrees (60) Fahrenheit temperature. Procedures for measuring and testing, except for delivery through positive displacement type meters shall be computed in accordance with the latest ASTM published methods then in effect. Procedures for such meter type deliveries shall be in accordance with the latest ASME-API (Petroleum PD Meter Code) published methods then in effect. The crude oil and/or condensate delivered hereunder shall be merchantable and acceptable to the carriers involved but not to exceed one percent (1%) BS&W and full deduction shall be made for all BS&W content according to the ASTM Standard Method then in effect. Should either party hereto fail to have a representative present during such measuring and testing, the measurement and tests of the other party shall be accepted.

2. PAYMENT: Unless specifically stated otherwise on the reverse side of this agreement, Buyer agrees to make payment to Seller for the crude oil and/or condensate purchased hereunder not later than the 20th day of the month following the month of delivery. If payment is made by wire transfer and the 20th day of the month falls on a Saturday or a New York Bank Holiday other than a Monday, payment shall be due on the immediately preceding New York Banking Day. If payment is made by wire transfer and the 20th day of the month falls on a Sunday or a Monday New York Bank Holiday, payment shall be due on the next succeeding New York Banking Day. If payment is made by check and the 20th day of the month falls on a Saturday, the check will be mailed on that Saturday. If payment is made by check and the 20th day falls on a Sunday, the check will not be mailed until the following Monday, unless that Monday is a New York Bank Holiday, in which event the check will be mailed on the next succeeding New York Banking Day.

Should the financial responsibility of Buyer at any time become impaired, unsatisfactory, or unacceptable to Seller, or if sales to Buyer should exceed approved credit lines, then Buyer shall secure and deliver to Seller such advance payments or other security, including in appropriate instances an acceptable letter of credit, as shall be required by Seller, and deliveries of oil and/or condensate hereunder may be withheld until such security is received. If such security is not received within the time specified by Seller, then Seller shall have the right to cancel this agreement.

3. WARRANTY: The Seller warrants title to all crude oil and/or condensate sold and delivered hereunder and warrants that same shall be free from all royalties, liens, and encumbrances, and that all taxes applicable prior to delivery, including but not limited to any production, extraction or other state, federal, or local lease level tax as well as any taxes for which the "First Purchaser" is responsible for paying or collecting, have been or will be paid. There are no other representations, guarantees, or warranties, expressed or implied, including particularly any implied warranty of fitness for a particular purpose, or otherwise, which extend beyond the descriptions set forth explicitly in this agreement. The parties agree that this transaction is in the ordinary course of their respective business activities.

4. PROCEEDS: The proceeds of the crude oil sold hereunder, after deducting

any taxes imposed on said oil which are required to be deducted by Buyer and any trucking or handling charges or other deductions agreed upon by Buyer and Seller, shall be paid to Seller monthly for oil received and purchased during the preceding month by Buyer. In the event of any adverse claim, assertion of lien, or any dispute concerning title to the property described in this agreement or to the mineral proceeds from such property, Buyer may withhold payments for the oil until the claim, lien assertion, or dispute is settled, without liability for interest unless otherwise required by applicable statute. If requested, Seller agrees to furnish evidence of title satisfactory to Buyer. Should Buyer resell the oil to another purchaser who accepts delivery at the point at which Buyer takes title, settlements to Seller may be based on the grades, measurements, volume computations, and/or deductions of that purchaser.

5. INDEMNITY BY SELLER: Seller agrees to indemnify and defend Buyer, its agents, successors, assigns, and related entities, against any and all claims, liabilities, losses damages, costs, expenses, and attorneys' fees relating to or otherwise arising from the oil purchases under this agreement. Seller further agrees to make settlement with all parties in interest, including settlement with the proper authorities for taxes, interest, and penalties, if any, due upon said oil when such taxes, interest, and penalties are not deducted as authorized in Paragraph Four above. Buyer is required to withhold 31% in Federal Income Tax from payments to owners who have not provided Buyer with a taxpayer identification number/social security number. TO AVOID THE 31% WITHHOLDING, SELLER SHALL PROVIDE ITS TAX IDENTIFICATION NUMBER/SOCIAL SECURITY NUMBER IN THE SPACE PROVIDED ON THE SPECIAL PROVISIONS TO WHICH THESE GENERAL PROVISIONS ARE ATTACHED.

6. RULES AND REGULATIONS: All of the terms and provisions of this agreement shall be subject to the applicable orders, rules and regulations (hereinafter generically referred to as "Regulations") of all governmental authorities having or purporting to have jurisdiction in the premises. If at any time or from time to time such regulations should be amended or should new regulations be adopted and the effect of such amended or new regulation (a) is not covered by any other provision of this agreement and (b) has an adverse economic effect upon either party hereto or its suppliers or customers, the party affected shall have the option to request renegotiation of the prices and other pertinent terms provided for in this agreement. Said option may be exercised by such party at any time after such amended or new regulation is promulgated by giving written notice of the desire to renegotiate prior to the time of delivery of the oil, such notice to contain the new prices and terms desired by the affected party. If the parties do not agree upon new prices and terms satisfactory to both within (30) days after such notice is given, the affected party shall have the right to terminate this agreement at the end of said thirty (30) day period.

7. FORCE MAJEURE: Either party hereto shall be relieved from liability for failure to deliver or receive crude oil and/or condensate hereunder for the time and to the extent such failure is occasioned by war, fire, explosion, riot, strike, or other industrial disturbances or concerted action of workmen, acts of God, governmental regulations, disruption or breakdown of production

or transportation facilities, delays of pipeline carrier in receiving and delivering crude oil and/or condensate tendered, by any decline in field production, or by any other cause, whether similar or not to those heretofore enumerated, reasonably beyond the control of such party.

8. EQUAL DAILY DELIVERIES: It is agreed that Buyer will pay for said crude oil and/or condensate purchased hereunder on the basis of the posted price in effect each day for the average number of barrels delivered each day during each month hereunder. Such average shall be determined by dividing the total number of barrels delivered hereunder during each month by the total number of days in such month. The parties agree, conclusively, that delivery shall be presumed to be made in equal daily quantities on the respective dates as determined hereinabove and not on any other date.

9. CLAIMS: All other claims as to shortage in quantity, to defects in quality, or any others, except for demurrage, shall be made by written notice to the other party within sixty (60) days after the delivery in question; claims for demurrage shall be made within one (1) year after the delivery in question; otherwise, any such claims shall be deemed to have been waived. No claims whatever shall be made under this agreement for special, indirect, or consequential damages.

10. ASSIGNMENT: Neither party shall assign this agreement or any rights hereunder without first obtaining the written consent of the other party hereto.

11. SAFETY: Each party agrees that its agents and employees will comply with all safety regulations of the other when such agents or employees are upon the premises of the other in connection with the performance of this contract.

12. BUSINESS PRACTICES: Each party hereto agrees to comply with all laws and regulations applicable to activities carried out in the name of or on the behalf of the other party under provisions of this agreement.

Each party hereto agrees that all financial settlements, billings and reports rendered to the other party as provided for in this agreement will, to the best of its knowledge, reflect properly the facts about all activities and transactions related to this agreement.

Each party agrees to notify the other party promptly upon discovery of any instance where the notifying party fails to comply with either provision above or whose conduct by the notified party is considered, by the notifying party, to be in breach of this agreement.

13. ADDITIONAL TERMS: No waiver by either party hereto of a breach of an obligation owed hereunder by the other party shall be construed as a waiver of any other breach, whether of the same or a different nature.

Any provision hereof which is legally unenforceable shall be ineffective only to the extent of such unenforceability without thereby invalidating the remaining provisions hereof or affecting the validity of enforceability of

this agreement as a whole.

This agreement contains the entire agreement between the Seller and Buyer with respect to the subject matter hereof, and there are no other promises, representations, or warranties affecting it.

The specific provisions contained in this agreement govern the general provisions of this agreement in the event of any conflict between the two.

This agreement shall not be modified or amended except by written instrument duly executed by officers or other duly authorized representatives of the respective parties.

CRUDE OIL PURCHASE/EXCHANGE AGREEMENT

Purchase from/Exchanged with:
GeoResources, Inc.
1407 West Dakota Parkway, Suite 1-B
Williston, ND 58801

Date: December 2, 1997
Results of Discussions
between Blaine Parrott and
Jeff Vickers

Koch Contracts # 36123
and # 13692

Gentlemen,

This document, when executed by the parties, will constitute an Agreement between GeoResources, Inc. ("GeoResources") and Koch Oil Company ("Koch"), covering the purchase and sale of crude oil and/or condensate under the following terms and conditions:

1. Definitions. When used in this Agreement, the terms listed below have the following meanings:

"Affiliate" - means a corporation controlling, controlled by or under common control with either Koch or GeoResources, as the case may be.

"Agreement" - means this contract and any exhibits or amendments.

"Business Day" - means any day in which the offices of Koch and GeoResources are both open for business.

"VPP Agreement"- means that certain agreement executed contemporaneously herewith between Koch Producer Services Inc. and GeoResources for the funding of certain leases in Bottineau County, North Dakota.

"Crude Oil" - means crude oil and/or condensate.

2. Term: The term of this Agreement shall begin effective at 7:00 a.m. on December 1, 1997, and shall end at 7:00 a.m. on November 30 , 2000.

(a) From December 1, 1997 through November 30, 1998, and continuing on a month to month basis thereafter until terminated by Koch or GeoResources on thirty (30) days advance written notice to the other (hereinafter, the "Initial Term"), Koch agrees to purchase and GeoResources agrees to sell all Crude Oil produced by GeoResources from the properties listed on Exhibit "A." During the Initial Term, Koch and GeoResources further agree to exchange all Crude Oil produced by GeoResources from the properties listed on Exhibit "B." The terms and conditions of such purchase and exchange transactions are more fully set out in paragraphs subsequent to this Paragraph 2 of this Agreement.

(b) Upon the conclusion of the Initial Term as provided for in Paragraph 2(a) above and until the end of the term of this Agreement, GeoResources agrees to sell to Koch all Crude Oil produced by GeoResources from the properties listed on Exhibits "A" and "B," (collectively, in this Paragraph referred to as the "Subject Crude Oil"), at a price and on such terms as are mutually agreeable between the parties. Should the parties not be able to mutually agree to a price and/or term for the purchase and sale of the Subject Crude Oil, GeoResources shall be entitled to receive a bona fide written offer from an unaffiliated third party to purchase the Subject Crude Oil. Upon receipt of such a bona-fide written offer from an unaffiliated third party to purchase the Subject Crude Oil that GeoResources is willing to accept, GeoResources agrees to immediately (i) forward to Koch the written offer from the third party setting forth the terms and provisions of such offer including the basis for determination of the price; and (ii) forward to Koch, at the same time as the writing required in (i) above is sent, copies of all information supplied by and between GeoResources and such third party. The information and materials addressed in (i) and (ii) above shall hereinafter collectively be referred to as the "Notification." Upon Koch's receipt of the Notification, Koch shall then have an optional right, for a period of ten (10) Business Days thereafter, to either match the offer and purchase the Subject Crude Oil on the same terms and conditions and for the same volume as offered by such third party, or make a better offer than that submitted by such third party. In the event Koch elects not to match or better the third party's written offer within the required time period, GeoResources shall have the right, which must be exercised within ten (10) Business Days following the expiration of Koch's ten (10) Business Day period, to enter into an agreement with the third party that made the offer containing the same terms and provisions that were included in the Notification; provided, however, that GeoResources may not enter into an agreement with any third party for a term longer than twelve (12) months, after which term Koch may again exercise its rights as stated in this Paragraph 2(b). If GeoResources does not enter into an agreement with a third party within the ten (10) Business Day period following the expiration of Koch's ten (10) Business Day period to match

or make a better offer, or if the third party purchase agreement fails to contain the same terms and provisions as contained in the Notification, or at the end of any contract term with a third party, GeoResources shall be required to send a new Notification to Koch and allow Koch the right to match or make a better offer than the offer submitted by such third party; all in the manner specified above.

3. Quantity: During the Initial Term of this Agreement, Koch agrees to purchase and GeoResources agrees to sell all Crude Oil produced by GeoResources from the properties listed on Exhibit "A." During the Initial Term, Koch and GeoResources further agree to exchange all Crude Oil produced by GeoResources from the properties listed on Exhibit "B."
4. Price; Delivery; Title; Risk of Loss
 - a) Properties Listed on Exhibit A: Koch Contract Number 36123
 - i) Koch's Receipt: During the Initial Term, GeoResources shall deliver, or cause to be delivered, each barrel of Crude Oil produced from properties listed on Exhibit "A" from tankage and/or through mutually acceptable meters located at the facilities of GeoResources listed on Exhibit "A." Title and risk of loss shall pass from GeoResources to Koch as the Crude Oil passes the outlet flange of the lease tankage or meter. During the Initial Term, Koch shall pay GeoResources for each barrel of Crude Oil produced from properties listed on Exhibit "A" a price equal to Koch's posting for North Dakota Sour, gravity delivered, plus \$2.75 per barrel. For purposes of pricing, all volumes will be assumed to have been delivered in Equal Daily Quantities (EDQ).
 - b) Properties Listed on Exhibit B: Koch Exchange Number 13692
 - i) Koch's Receipt: During the Initial Term, GeoResources shall deliver, or cause to be delivered, each barrel of Crude Oil produced from the properties listed on Exhibit "B" from tankage and/or through mutually acceptable meters located at the facilities of GeoResources listed on Exhibit "B." Title and risk of loss shall pass from GeoResources to Koch as the Crude Oil passes the outlet flange of the lease tankage or meter. During the Initial Term, Koch shall pay GeoResources for each barrel of Crude Oil produced from properties listed on Exhibit "B" a price equal to Koch's posting for North Dakota Sour, gravity delivered. For purposes of pricing, all volumes will be assumed to have been delivered in Equal Daily Quantities (EDQ).
 - ii) GeoResources' Receipt: During the Initial Term, Koch shall deliver, or cause to be delivered to GeoResources at Arco

Pipeline Company's crude oil terminal in Cushing, Oklahoma, a volume of Arco Common Stream Domestic Sweet Crude Oil equal to that which is delivered by GeoResources pursuant to Paragraph 4(b)(i). Title and risk of loss shall pass from Koch to GeoResources within the facilities of Arco Pipeline at Cushing, Oklahoma. During the Initial Term, GeoResources shall pay Koch for each barrel of Crude Oil delivered pursuant to this Paragraph 4(b)(ii) a price equal to Koch's posting for West Texas/New Mexico Intermediate, deemed 40 degrees API gravity, less \$0.40 per barrel. For purposes of pricing, all volumes will be assumed to have been delivered in Equal Daily Quantities (EDQ).

5. Crude Type: The crude oil purchased by Koch at the lease shall be various domestic lease crudes.
6. Quality: All crude oil produced from each lease and purchased hereunder shall meet the specifications of all applicable carriers.
7. Imbalances: The transaction contemplated pursuant to Paragraph 4(b) of this Agreement is an exchange transaction wherein Koch will deliver to GeoResources at the designated point of delivery a volume of Crude Oil equal to that which GeoResources delivers to Koch pursuant to Paragraph 4(b)(i). Koch shall be obligated to deliver the volume of crude oil scheduled pursuant to Paragraph 4(b)(ii) if GeoResources performs its delivery scheduled pursuant to Paragraph 4(b)(i). Koch and GeoResources agree that they shall maintain the exchange deliveries in balance on a monthly basis as much as is practicable to avoid any imbalance.

In the event a imbalance arises during the term of this Agreement as a result of one party delivering more than the other party, either party may notify the other party, such notification to be in writing, as to the volume of the imbalance. Subsequent deliveries by either party under this Agreement after such notice shall be applied first to the imbalance and then to any further delivery obligations.

8. Payment: Payment for the Crude Oil shall be made not later than twenty days after the end of the month in which delivery of Crude Oil was made. All payments shall be made via wire net out in accordance with that certain Net Out Agreement between GeoResources, Inc. and Koch Oil Company dated August 21, 1992.

Koch shall hold the basic division order for the purchase of Crude Oil produced from leases listed on Exhibit A (Koch Contract #36123).

Payment for Crude Oil produced from leases listed on Exhibit B (Koch Contract #13692) shall be made by Koch to GeoResources on a 100%

Indemnifying Division Order basis including taxes per Exhibit "C." GeoResources assumes responsibility to account and make payment of proceeds to interest owners, obtain, execute, and deliver division orders, file MMS Form 2014s, if applicable, and perform all other related obligations under this Agreement.

9. Miscellaneous Provisions.

- a. Amendments and Waiver. No amendment or waiver of any provision of this Agreement, nor consent to any departure by either party therefrom, shall be effective unless the same is in writing and signed by Koch and GeoResources, and such waiver or consent shall be effective only in the specific instance and for the specified purpose for which given.
- b. Assignment. Either party may assign this Agreement in whole or in part to an Affiliate or may cause any or all of its obligations to be performed by an Affiliate. Neither party will assign its rights or delegate its duties under this Agreement in whole or in part to a non-Affiliate, without the prior written consent of the other party, which consent will not be unreasonably withheld. GeoResources's rights and obligations stated under this Agreement shall run with the properties listed on Exhibits "A" and "B" and shall be binding on the successors and assigns of GeoResources.
- c. Notice. Any notices required or desired to be given hereunder shall be in writing and shall be addressed as follows:

If to Koch:
Koch Oil Company
4111 E. 27th St. North
Wichita, Kansas 67220
Attn: President
Facsimile: (316) 828-8245

If to GeoResources:
GeoResources, Inc.
1407 West Dakota Parkway, Suite 1-B
Williston, ND 58801
Attn: Jeff Vickers, President
Facsimile: 701-572-0277

Notices provided hereunder shall be deemed to have been received when sent, if provided by telefax or hand, or when actually received, if provided by first class mail. In the event that any such notice is received after 4:00 PM local time on a Business Day or is received on a non-Business Day, delivery shall be deemed to have been received on the next Business Day.

- d. No Third Party Beneficiaries. Nothing in the Agreement is intended

to inure to the benefit of any third party, and this Agreement shall not create any third party beneficiaries.

- e. Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Kansas, without reference to conflict of laws provisions that may direct the application of laws other than the state of Kansas.
- f. Construction. This Agreement has been negotiated and prepared at the joint request, direction and construction of the parties, at arms length, with the advice and participation of counsel for each party, and will be interpreted in accordance with its terms without favor to any party.
- g. Severability. If any provision or any portion of any provision of this Agreement or the application of any such provision or any portion thereof to any person or circumstance, is held invalid or unenforceable, the remaining portion of such provision and the remaining provisions shall remain in full force and effect.
- h. Entire Agreement. This Agreement, its exhibits and Koch's attached General Provisions dated 8/96 constitute the entire agreement between the parties with respect to the purchase of Crude Oil from GeoResources. All prior agreements with respect to the purchase of Crude Oil from the leases listed on Exhibits "A" and "B" are hereby superseded and replaced. Where the General Provisions are inconsistent with the specific provisions of this Agreement, this Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have caused this Crude Oil Purchase/Exchange Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

KOCH OIL COMPANY

By: ___/s/ James B. Urban_____
Printed Name: James B. Urban
Title: Vice President,
Koch Oil Company
Date: 12/8/97

GEORESOURCES, INC.

By: ___/s/ J. P. Vickers_____
Printed Name: J. P. Vickers
Title: President
Date: 12/3/97
Tax I.D. Number ___84-0505444___

EXHIBIT "A"
Koch Exchange Contract Number 36123

LSE NBR	PROPERTY NAME	COUNTY	ST
20854	Dagmar Fossum	Bottineau	ND
59284	Oscar Fossum #4	Bottineau	ND
59285	Oscar Fossum	Bottineau	ND

EXHIBIT "B"
Koch Exchange Contract Number 13692

LSE NBR	PROPERTY NAME	COUNTY	ST
54270	PEOC	McKenzie	ND
66416	Mott	Renville	ND
10300	Carroll Brandt	Bottineau	ND
34863	Anderson	Bottineau	ND
816	Carroll Aitken	Renville	ND
1930	Anderson et al	Bottineau	ND
24840	Hultgren	Bottineau	ND
31289	Billehus	Bottineau	ND
39755	Lawrence Hanson	Bottineau	ND
43982	Arthur Hetland	McHenry	ND
43992	Stella Rice	Bottineau	ND
44005	Hanson State	Bottineau	ND
44012	W&M Peterson	Bottineau	ND
44014	Witteman	Bottineau	ND
44019	USA Johnson	Bottineau	ND
44025	John Waddle	Bottineau	ND
44051	Obert Linstad	Bottineau	ND
48317	O&V Johnson	Bottineau	ND
48318	V&F Johnson	Bottineau	ND
48319	Lillegard-Johnson	Bottineau	ND
48904	Juve	Bottineau	ND
51954	Grann County	Bottineau	ND
55257	Grann	Bottineau	ND
56010	Johnson-Lillegard	Bottineau	ND
56074	Harold Lindstrom	Bottineau	ND
59273	Romos	Bottineau	ND
59274	Welstad	McHenry	ND
68115	Walter G. Nelson	Bottineau	ND
68927	Howard Nordmark	Bottineau	ND
70063	Waddle Olson	Bottineau	ND
71965	Elof G. Pearson	Bottineau	ND

77240	Rice	Bottineau	ND
88608	Sveen	Bottineau	ND
90472	Tolstad	Bottineau	ND
1859	Anton Anderson	Bottineau	ND

EXHIBIT "C"

[Koch Oil Company's INDEMNIFYING DIVISION ORDER dated 05/14/92,
with revisions of 2/21/95]

MEMORANDUM
OF
AGREEMENT RELATING TO PURCHASE OF CRUDE OIL

STATE OF NORTH DAKOTA }
 } ALL PERSONS BY THESE PRESENTS:
COUNTY OF BOTTINEAU }

THAT, as of the effective date hereof, GEORESOURCES, INC., a Colorado corporation ("Seller"), and KOCH OIL COMPANY ("Buyer"), have entered into certain agreements relating to a preferential right granted to Koch Oil by Seller to purchase crude oil produced by Seller (referred to herein as the "Purchase Agreement"), with respect to Properties described on Exhibit "A" attached hereto.

1. Definitions. Unless otherwise defined herein or the context otherwise requires, capitalized terms used in this Memorandum have the meanings provided in the Purchase Agreement.
2. Preferential Right to Purchase. The Purchase Agreement provide that, on and subject to the terms, provisions and conditions of the Purchase Agreement, Seller has granted to Buyer a preferential right to purchase the hydrocarbons produced from the Properties from the date hereof for the period extending to the later of (a) seven (7) years from the date hereof and (b) the term of any note or other financing instrument existing between Seller and Buyer's affiliate, Koch Producer Services, Inc.
3. Controlling Document. If any of the terms set forth in this Memorandum conflict with any of the terms set forth in the Purchase Agreement, the terms of the Purchase Agreement shall control and supersede any terms of this Memorandum. It is the intent of this Memorandum to give notice to third parties that Buyer and Seller have entered into the Purchase Agreement relating to the Properties. It is not the purpose of this Memorandum to amend, modify, eliminate, or add to the provisions of such Purchase Agreement.
4. Successors and Assigns. The right and obligations of the parties

to the Purchase Agreement are binding on, and inure to the benefit of, the respective permitted successors and assigns of the parties.

5. Automatic Expiration of Notice. This Memorandum, and the notice of the Purchase Agreements provided hereby, shall immediately and automatically expire and be without further force or affect on December 31, 2010, unless a fully executed original of an agreement extending the notice provided hereby, executed by both Seller and Buyer, shall be recorded in the Official Public Records of Real Property of Bottineau, North Dakota, on or before such date.

IN WITNESS WHEREOF, Seller and Buyer have executed this Memorandum to be effective as of the 1st day of December, 1997.

SELLER:

GEORESOURCES, INC.

By: /s/ J. P. Vickers
Name: J. P. Vickers
Title: President

ATTESTING WITNESSES TO
SIGNATURE OF SELLER:

/s/ Cathy Kruse

/s/ Connie Hval

BUYER:

KOCH OIL COMPANY

By: /s/ James B. Urban
Name: James B. Urban
Title: Vice President,
Koch Oil Company

ATTESTING WITNESSES TO
SIGNATURE OF BUYER:

/s/ Michael A. Dooms

/s/

ACKNOWLEDGMENTS

STATE OF NORTH DAKOTA)
) SS.
COUNTY OF WILLIAMS)

BE IT REMEMBERED that I, Donna C. Hanson, a Notary Public duly qualified, commissioned, sworn and acting in and for the County and State aforesaid, hereby certify that, on this 3rd day of December, 1997, there appeared before me J. P. Vickers, the President of GeoResources, Inc., a Colorado corporation, whose address is 1407 West Dakota Parkway, Suite 1-B, Williston, ND 58801.

TEXAS This instrument was acknowledged before me on this day by each such person as the designated officer of the company set opposite his name (or a Trustee, as the case may be) on behalf of said company set opposite his name (or of himself as Trustee, as the case may be).

NORTH DAKOTA Before me personally appeared each such person, each of whom is known to me to be the officer of the corporation or association described in and that executed this instrument, and acknowledged to me that such corporation or association executed the same.

Witness my hand and official seal.

/s/ Donna C. Hanson
Notary Public

Residing at Williston, ND

My commission expires:
September 5, 2002

ACKNOWLEDGMENTS

State of Kansas)
) SS.
County of Sedgwick)

This instrument was acknowledged before me on December 5, 1997 by James B. Urban, Vice President of KOCH OIL COMPANY, a division of Koch Industries, Inc., a Kansas Corporation, on behalf of the corporation.

Witness my hand and official seal.

/s/ Michael A. Dooms
Notary Public

My Commission expires:
2/7/2001

Recording Requested by, and
after Recordation Return to:

MAYER, BROWN & PLATT
700 Louisiana Street
Houston, Texas 77002
Attn: Francis R. Bradley, III

Exhibit A - Description of Properties

Exhibit A

Description of Properties

EXHIBIT "A"

LSE NBR	PROPERTY NAME	COUNTY	ST
0043782	Ballantyne-State 3	Bottineau	ND
0043782	William Steinhaus 2	Bottineau	ND
0043782	Ballantyne-State 1	Bottineau	ND
0043782	Ballantyne-State/Steinhaus H1	Bottineau	ND

EXHIBIT "A"

Attached to and made a part of the
Between GeoResources, Inc. and Koch Producer Services, Inc.

STATE OF NORTH DAKOTA COUNTY OF BOTTINEAU

Lease Schedule

LESSOR State Land Department, State of North Dakota
LESSEE Leonard F. Ward and Almer Swanson
DATE 5/29/49
DESCRIPTION Township 162 North, Range 82 West
 Section 25: NE1/4 and other lands not
 subject to this agreement

ACRES 160
BOOK Z
PAGE 475

LESSOR William M. Steinhaus (aka W. M. Steinhaus)
 and Louise Steinhaus, husband and wife
LESSEE Placid Oil Company
DATE 8/23/73
DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2,
 and other lands not subject
 to this agreement

ACRES 157.31
BOOK 176
PAGE 219

LESSOR Evelyn L. Lorius (fka Evelyn L. Nielsen)
 and Fred A. Lorius, wife and husband
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2,
 and other lands not subject
 to this agreement

ACRES 157.31
BOOK 186
PAGE 21

LESSOR R. O. Gothenquist and
 Ruth M. Gothenquist, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2,

and other lands not subject
to this agreement

ACRES 157.31
BOOK 186
PAGE 41

LESSOR Howard Spoklie
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement

ACRES 157.31
BOOK 186
PAGE 294

LESSOR Walter Satrom and
Ruby L. Satrom, husband and wife
LESSEE GeoResources, Inc.
DATE 3/14/75
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2,
and other lands not subject
to this agreement

ACRES 157.31
BOOK 186
PAGE 296

LESSOR Melvin Ballantyne and
Russell Ballantyne
LESSEE GeoResources, Inc.
DATE 9/23/77
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2

ACRES 157.31
BOOK 207
PAGE 404

LESSOR Phillips Petroleum Company
LESSEE GeoResources, Inc.
DATE 4/20/77
DESCRIPTION Township 162 North, Range 81 West
Section 30: E1/2NW1/4, Lots 1 and 2

ACRES 157.31
 BOOK 212
 PAGE 25

LESSOR Great American Royalties, Inc.
 LESSEE GeoResources, Inc.
 DATE 9/23/77
 DESCRIPTION Township 162 North, Range 81 West
 Section 30: E1/2NW1/4, Lots 1 and 2
 ACRES 157.31
 BOOK 254
 PAGE 546

Well Schedule (Wells in the pooled area described as the NE1/4 Sec. 25, T162N R82W and the NW1/4 Sec. 30, T162N R81W containing 317.31 acres)

Well Name	Working Interest Percentage	Net Revenue Interest
Percentage		
Ballantyne-State #1	100.0	81.40854
Ballantyne-State #3	100.0	81.40854
William Steinhaus #1 SWD	100.0	N/A
William Steinhaus #2	100.0	81.40854
Ballantyne-State/Steinhaus #H1	100.0	81.40854

MEMORANDUM
 OF
 AGREEMENT RELATING TO PURCHASE OF CRUDE OIL

STATE OF NORTH DAKOTA }
 } ALL PERSONS BY THESE PRESENTS:
 COUNTY OF BOTTINEAU }
 COUNTY OF McHENRY }
 COUNTY OF McKENZIE }
 COUNTY OF RENVILLE }

THAT, as of the effective date hereof, GEORESOURCES, INC., a Colorado corporation ("Seller"), and KOCH OIL COMPANY ("Buyer"), have entered into certain agreements relating to a preferential right granted to Koch Oil by Seller to purchase crude oil produced by Seller (referred to herein as the "Purchase Agreement"), with respect to Properties described on Exhibit "A" attached hereto.

1. Definitions. Unless otherwise defined herein or the context

otherwise requires, capitalized terms used in this Memorandum have the meanings provided in the Purchase Agreement.

2. Preferential Right to Purchase. The Purchase Agreement provide that, on and subject to the terms, provisions and conditions of the Purchase Agreement, Seller has granted to Buyer a preferential right to purchase the hydrocarbons produced from the Properties from the date hereof for the period extending to the later of (a) three (3) years from the date hereof and (b) the term of any note or other financing instrument existing between Seller and Buyer's affiliate, Koch Producer Services, Inc.

3. Controlling Document. If any of the terms set forth in this Memorandum conflict with any of the terms set forth in the Purchase Agreement, the terms of the Purchase Agreement shall control and supersede any terms of this Memorandum. It is the intent of this Memorandum to give notice to third parties that Buyer and Seller have entered into the Purchase Agreement relating to the Properties. It is not the purpose of this Memorandum to amend, modify, eliminate, or add to the provisions of such Purchase Agreement.

4. Successors and Assigns. The right and obligations of the parties to the Purchase Agreement are binding on, and inure to the benefit of, the respective permitted successors and assigns of the parties.

5. Automatic Expiration of Notice. This Memorandum, and the notice of the Purchase Agreements provided hereby, shall immediately and automatically expire and be without further force or affect on December 31, 2010, unless a fully executed original of an agreement extending the notice provided hereby, executed by both Seller and Buyer, shall be recorded in the Official Public Records of Real Property of Bottineau, North Dakota, on or before such date.

IN WITNESS WHEREOF, Seller and Buyer have executed this Memorandum to be effective as of the 1st day of December, 1997.

SELLER:

GEORESOURCES, INC.

By: /s/ J. P. Vickers
Name: J. P. Vickers
Title: President

ATTESTING WITNESSES TO
SIGNATURE OF SELLER:

/s/ Cathy Kruse

/s/ Connie Hval

BUYER:

KOCH OIL COMPANY

By: /s/ James B. Urban
Name: James B. Urban
Title: Vice President,
Koch Oil Company

ATTESTING WITNESSES TO
SIGNATURE OF BUYER:

/s/ Michael A. Dooms

/s/

ACKNOWLEDGMENTS

STATE OF NORTH DAKOTA)
) SS.
COUNTY OF WILLIAMS)

BE IT REMEMBERED that I, Donna C. Hanson, a Notary Public duly qualified, commissioned, sworn and acting in and for the County and State aforesaid, hereby certify that, on this 3rd day of December, 1997, there appeared before me J. P. Vickers, the President of GeoResources, Inc., a Colorado corporation, whose address is 1407 West Dakota Parkway, Suite 1-B, Williston, ND 58801.

TEXAS This instrument was acknowledged before me on this day by each such person as the designated officer of the company set opposite his name (or a Trustee, as the case may be) on behalf of said company set opposite his name (or of himself as Trustee, as the case may be).

NORTH DAKOTA Before me personally appeared each such person, each of whom is known to me to be the officer of the corporation or association described in and that executed this instrument, and acknowledged to me that such corporation or association executed the same.

Witness my hand and official seal.

/s/ Donna C. Hanson
Notary Public

Residing at Williston, ND

My commission expires:
September 5, 2002

ACKNOWLEDGMENTS

State of Kansas)
) SS.
County of Sedgwick)

This instrument was acknowledged before me on December 5, 1997 by James B. Urban, Vice President of KOCH OIL COMPANY, a division of Koch Industries, Inc., a Kansas Corporation, on behalf of the corporation.

Witness my hand and official seal.

/s/ Michael A. Dooms
Notary Public

My Commission expires:
2/7/2001

Recording Requested by, and
after Recordation Return to:

MAYER, BROWN & PLATT
700 Louisiana Street
Houston, Texas 77002
Attn: Francis R. Bradley, III

Exhibit A - Description of Properties

Exhibit A

Description of Properties

EXHIBIT "A"

Koch Exchange Contract Number 36123

LSE NBR	PROPERTY NAME	COUNTY	ST
20854	Dagmar Fossum	Bottineau	ND
59284	Oscar Fossum #4	Bottineau	ND
59285	Oscar Fossum	Bottineau	ND

Koch Exchange Contract Number 13692

LSE NBR	PROPERTY NAME	COUNTY	ST
54270	PEOC	McKenzie	ND
66416	Mott	Renville	ND
10300	Carroll Brandt	Bottineau	ND
34863	Anderson	Bottineau	ND
816	Carroll Aitken	Renville	ND
1930	Anderson et al	Bottineau	ND
24840	Hultgren	Bottineau	ND
31289	Billehus	Bottineau	ND
39755	Lawrence Hanson	Bottineau	ND
43982	Arthur Hetland	McHenry	ND
43992	Stella Rice	Bottineau	ND
44005	Hanson State	Bottineau	ND
44012	W&M Peterson	Bottineau	ND
44014	Witteman	Bottineau	ND
44019	USA Johnson	Bottineau	ND
44025	John Waddle	Bottineau	ND
44051	Obert Linstad	Bottineau	ND
48317	O&V Johnson	Bottineau	ND
48318	V&F Johnson	Bottineau	ND
48319	Lillegard-Johnson	Bottineau	ND
48904	Juve	Bottineau	ND
51954	Grann County	Bottineau	ND
55257	Grann	Bottineau	ND
56010	Johnson-Lillegard	Bottineau	ND
56074	Harold Lindstrom	Bottineau	ND
59273	Romos	Bottineau	ND
59274	Welstad	McHenry	ND
68115	Walter G. Nelson	Bottineau	ND
68927	Howard Nordmark	Bottineau	ND

70063	Waddle Olson	Bottineau	ND
71965	Elof G. Pearson	Bottineau	ND
77240	Rice	Bottineau	ND
88608	Sveen	Bottineau	ND
90472	Tolstad	Bottineau	ND
1859	Anton Anderson	Bottineau	ND

CERTIFICATE OF CONSENTS AND APPROVALS

I, J. P. Vickers, do hereby certify that I am the presently elected, qualified and acting President of GeoResources, Inc., a Colorado corporation; and certify the following in regard to Paragraph 12(c) to that certain Purchase Agreement for Volumetric Production Payment ("Purchase Agreement") between GeoResources, Inc. and Koch Producer Services, Inc. dated as of December 3, 1997.

That to the best of my knowledge, and after due investigation no consents, approvals, and permits from any federal or state regulatory agencies, governmental authorities or from any other Persons are necessary for the consummation of the Purchase Agreement.

IN WITNESS WHEREOF, I have hereunto set my hand in my official capacity and affixed the Corporate Seal this 3rd day of December, 1997.

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

(Corporate Seal)

CERTIFICATE OF REPRESENTATIONS AND COVENANTS

I, J. P. Vickers, do hereby certify that I am the presently elected, qualified and acting President of GeoResources, Inc., a Colorado corporation; and certify that the following in regard to Paragraph 12(d) to that certain Purchase Agreement for Volumetric Production Payment ("Purchase Agreement") between GeoResources, Inc. and Koch Producer Services, Inc. dated as of December 3, 1997.

That to the best of my knowledge, and after due investigation Seller has performed all agreements and covenants required by the Purchase Agreement and the other Production Payment Documents, and all

representations and warranties in the Purchase Agreement and in the other Production Payment Documents are true and correct as of the Closing Date.

IN WITNESS WHEREOF, I have hereunto set my hand in my official capacity and affixed the Corporate Seal this 3rd day of December, 1997.

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

(Corporate Seal)

CERTIFICATE OF NO LITIGATION

I, J. P. Vickers, do hereby certify that I am the presently elected, qualified and acting President of GeoResources, Inc., a Colorado corporation; and certify that the following in regard to Paragraph 12(k) to that certain Purchase Agreement for Volumetric Production Payment ("Purchase Agreement") between GeoResources, Inc. and Koch Producer Services, Inc. dated as of December 3, 1997.

That to the best of my knowledge, and after due investigation no suit, action or other proceeding is pending to restrain, enjoin, or otherwise prevent the consummation of the Purchase Agreement or the transactions contemplated in connection therewith or which may have any material effect on the Subject Interests.

IN WITNESS WHEREOF, I have hereunto set my hand in my official capacity and affixed the Corporate seal this 3rd day of December, 1997.

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

(Corporate Seal)

CERTIFICATE OF LIABILITY INSURANCE

PRODUCER

COMPANIES AFFORDING COVERAGE

First American Insurance

CNA Insurance Companies

P.O. Box 1549
Minot ND 58702
701-852-1277

Insured

GeoResources, Inc. &
Belmont Natural Resource
Company, Inc.

P.O. Box 1505
Williston ND 58801

COVERAGES

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED, NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

TYPE OF INSURANCE	COMMERCIAL GENERAL LIABILITY
POLICY NUMBER	C155850626
POLICY EFFECTIVE DATE	11/01/97
POLICY EXPIRATION DATE	11/01/98
GENERAL AGGREGATE LIMIT	\$3,000,000
PRODUCTS-COMP/OP AGG	\$3,000,000
PERSONAL & ADV INJURY	\$1,000,000
EACH OCCURRENCE	\$1,000,000
FIRE DAMAGE	\$50,000
MED EXP	\$5,000

TYPE OF INSURANCE	AUTOMOBILE LIABILITY
POLICY NUMBER	C155850643
POLICY EFFECTIVE DATE	11/01/97
POLICY EXPIRATION DATE	11/01/98
COMBINED SINGLE LIMIT	\$1,000,000

TYPE OF INSURANCE	EXCESS LIABILITY
POLICY NUMBER	C162776523
POLICY EFFECTIVE DATE	11/01/97
POLICY EXPIRATION DATE	11/01/98
EACH OCCURRENCE	\$2,000,000
AGGREGATE	\$2,000,000

TYPE OF INSURANCE	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY
POLICY NUMBER	C155850626 - CONTINGENT EMPLOYERS LIABILITY ONLY
POLICY EFFECTIVE DATE	11/01/97
POLICY EXPIRATION DATE	11/01/98

EL EACH ACCIDENT	\$2,000,000
EL DISEASE - POLICY LIMIT	\$2,000,000
EL DISEASE - EA EMPLOYEE	\$2,000,000

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/SPECIAL ITEMS

GL policy contains Contractual Liability w/Waiver of Subrogation regarding contracts signed pertaining to insured's business. Certificate Holder is named as an Additional insured.

CERTIFICATE HOLDER

KOCHP-1

KOCH PRODUCER SERVICES
ATTN: MARK VIVIEN
600 TRAVIS ST STE 5300
HOUSTON TX 77002

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEROF, THE ISSUING COMPANY WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO MAIL SUCH NOTICE SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE COMPANY, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

/S/ JANET K. CHRISTENSON

CERTIFIED COPY OF RESOLUTION

I, Cathy Kruse, do hereby certify that I am the presently elected, qualified and acting Secretary of GeoResources, Inc., a Colorado corporation; that the resolutions set forth below were duly adopted by members of the Board or Directors of the corporation on November 20, 1997; and that such resolutions have not been amended or repealed and are in full force and effect on the date hereof.

RESOLVED, that GeoResources, Inc. (the "Corporation"), a Colorado corporation, be, and hereby is, authorized, to execute any and all documents required in connection with that certain Purchase Agreement for Volumetric Production Payment between the Corporation and Koch Producer Services, Inc. including without limitation conveyances, purchase agreements, and all other associated agreements related to the Purchase Agreement for Volumetric Production Payment.

FURTHER RESOLVED, that Jeffrey P. Vickers, President of the Corporation, and/or the Corporation Secretary, be, and they hereby are, authorized, empowered and directed, on behalf of the Corporation, to execute the documents referenced above, including making such changes as are advised by counsel, and to take such other actions and execute such additional documents as may be necessary and desirable to carry out the intent and purposes of the foregoing resolution.

IN WITNESS WHEREOF, I have hereunto set my hand in my official capacity and affixed the Corporate Seal this 3rd day of December, 1997.

(Corporate Seal)

/s/ Cathy Kruse
Cathy Kruse, Secretary
GeoResources, Inc.

Certificate of Secretary
of
GeoResources, Inc.

I, Cathy Kruse, the duly elected, qualified and acting Secretary of GeoResources, Inc., a Colorado Corporation (the "Company" do hereby certify that the attached are true and correct copies of the documents listed below, as amended through the date hereof:

Bylaws of GeoResources, Inc.

Articles of Incorporation of GeoResources, Inc.

In witness whereof, I have executed this Certificate and caused it to be dated the 3rd day of December, 1997.

/s/ Cathy Kruse
Cathy Kruse, Corporate Secretary

(Corporate Seal)

BYLAWS OF GEORESOURCES, INC.

- I. The President shall preside at all meetings of stockholders or directors, and he shall perform all the duties usually pertaining to his office. He shall, on demand of any director, call special meetings of the directors of stockholders. Checks and other negotiable instruments may be signed either by the President or the Secretary.
- II. As soon as practicable after each annual election of directors, the Board of Directors shall meet for the purpose of organization, electing or appointing officers of the corporation, and transaction of other business, at the place where the shareholders' meeting is held, or at such other place in or out of the State of Colorado, as the Board of Directors may determine.
 - II.A. The annual meeting of the shareholders of the Corporation entitled to vote shall be held at the principal office of the Corporation or at such other place, within or without the State of Colorado, as is designated by the Board of Directors, at such time on such day during the month of June of each year (other than a Saturday, Sunday or holiday), or during such other month as shall be determined by the Board of Directors. At the annual meeting, the shareholders, voting as provided in the Articles of Incorporation, shall elect directors and shall transact such other business as shall properly come before the meeting.
- III. The Vice-President shall, in the event of the absence or disability of the President, perform the duties of the President.
- IV. The Treasurer shall have custody of all the monies of the Corporation. He shall keep regular books of account. All money of the Corporation shall be deposited in each such depository or depositories as shall be selected by the directors. In addition, the Treasurer shall perform all duties usually pertaining to his office.
- V. The Secretary shall keep the records of the Corporation. He shall have the custody of the seal of the Corporation. He shall sign, issue and seal all certificates of stock, which certificates shall also be signed by the President. The secretary shall, in addition, perform all the duties usually pertaining to his office. The Assistant Secretary shall, in the event of absence, death, disability, or resignation of the Secretary, perform the duties of the Secretary.
- VI. Regular meetings of the directors shall be held at such time and place as the directors may determine. No written notice of such meetings shall be required, and it shall be the duty of each director to attend the same without written notice.
- VII. Special meetings of the directors may be called by the President on one day's notice, or such special meetings may be held at any time on one day's notice at the call of any one director, and attendance shall be

mandatory whether such meetings are called by the President or a director. At regular or special meetings, a majority of the directors shall constitute a quorum.

- VIII. At all meetings of stockholders, regular or special, each holder of voting stock shall be entitled to one vote for each share of stock held by him, except as otherwise provided for in the Certificate of Incorporation. At such meetings, each stockholder may vote either in person or by written proxy.
- IX. At all meetings of the stockholders, regular or special, a majority of the voting stock shall constitute a quorum. A majority of a quorum of voting stock may decide any question coming before the meeting, except as is required by Colorado Corporate law.
- X. It shall not be necessary to have an annual meeting to elect or remove directors. Directors may be elected or removed at any time by a majority vote of the outstanding voting stock.
- XI. It shall not be necessary that an officer or director of this Corporation be a holder of the stock of this Corporation.
- XXI. All real estate and interests in real estate may be conveyed, leased, or otherwise disposed of upon the signatures of the President and the Secretary of this Corporation.
- XIII. The Corporation shall have a lien upon each share of stock for any indebtedness due to it from the holder thereof. Stock of the Corporation may only be transferred on the books of the Corporation and upon surrender of all outstanding certificates for such stock.
- XIV. All stock of this Corporation shall be nonassessable.
- XV. [Abolished].
- XVI. Officers, directors, and shareholders may contract with this Corporation for goods and services, but the Corporation shall not pay more than the value of such goods or services upon the open market.
- (A) Officers, directors and stockholders shall, when they render services or furnish goods to the Corporation, or incur expenses for the Corporation, or furnish goods to the Corporation, bill the Corporation.
- (B) No salaries for professional services of the stockholders shall be paid out of money received from the sale of stock of the Corporation. However, disbursements made out of pocket by such shareholders for the Corporation may be made from the source.
- XVII. The seal of this Corporation shall consist of a circle, within which shall be inscribed, "GeoResources, Inc."

THE ARTICLES OF INCORPORATION
OF
GEORESOURCES, INC.

Pursuant to the provisions of the Colorado Corporation Code, the undersigned Corporation hereby composites its Articles of Incorporation as amended as follows:

ARTICLE I.

The name of the corporation is GeoResources, Inc.

ARTICLE II.

The object for which our said Corporation is formed and incorporated is for the purpose of exploring, developing, and marketing natural resources, and to do everything necessary and incidental to carrying such object.

ARTICLE III.

This corporation shall have perpetual existence.

ARTICLE IV.

The authorized capital stock of GeoResources, Inc. is Ten Million (10,000,000) shares of common stock with a par value of one cent (\$.01) per share. All of the shares when issued are fully paid and nonassessable. All of the shares vote for all purposes at all shareholders meetings and each share is equal to each other with respect to liquidation and dividend rights.

ARTICLE V.

The affairs and management of this corporation are to be under the control of a board of directors consisting of not less than three (3) members nor more than ten (10) members. Directors may be removed at any time by a majority vote of the outstanding voting stock, and at that time other directors may be elected.

ARTICLE VI.

The principal office of this corporation shall be located at the post office address of 1801 Tabor Street, Denver 15, Colorado, which address is in

the County of Jefferson and State of Colorado.

ARTICLE VII.

This corporation shall have the power to conduct business in the State of Colorado, any other state of the United States and in foreign countries and shall have the power to have one or more offices out of the State of Colorado.

It shall also have power to hold, purchase, mortgage, lease, claim, convey, and to otherwise acquire and dispose of real and personal property out of the State of Colorado.

ARTICLE VIII.

A stock ledger and other books of record of this corporation shall be kept within the State of Colorado in charge of the said Rollin C. Vickers whose office address is 1801 Tabor Street, Denver 15, Colorado.

ARTICLE IX.

The directors of our corporation shall have the power to make such by-laws as they deem proper for the management of the affairs of the corporation.

ARTICLE X.

Cumulative voting shall be allowed.

ARTICLE XI.

No holder of any stock or other security of the corporation shall have any pre-emptive right to subscribe for or purchase his proportionate share of any stock or other security of the corporation now or hereafter authorized or issued or of treasury shares sold or otherwise disposed of by the corporation.

IN WITNESS WHEREOF, we have hereunto set our hands and seal this 1st day of March, 1984.

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

/s/ Cathy L. Callahan
Cathy L. Callahan, Secretary/Treasurer

CERTIFICATE OF INCUMBENCY

I, Cathy Kruse, do hereby certify that I am the presently elected, qualified and acting Secretary of GeoResources, Inc., a Colorado Corporation and that the following were elected as officers of GeoResources, Inc. in their capacity so stated on June 12, 1997, to serve during the ensuing year and until their successors are duly elected and qualified.

J. P. Vickers
President, Chief Executive
Officer and Chief Financial
Officer

/s/ J.P. Vickers
Signature

Cathy Kruse
Secretary/Treasurer

/s/ Cathy Kruse
Signature

IN WITNESS WHEREOF, I have hereunto set my hand in my official capacity and affixed the corporate seal this 3rd day of December, 1997.

(Corporate Seal)

/s/ Cathy Kruse
Cathy Kruse, Secretary
GeoResources, Inc.

STATE OF COLORADO

DEPARTMENT OF
STATE

CERTIFICATE

I, VICTORIA BUCKLEY, SECRETARY OF STATE OF THE STATE OF COLORADO
HEREBY CERTIFY THAT

ACCORDING TO THE RECORDS OF THIS OFFICE

GEORESOURCES, INC.
(COLORADO CORPORATION)

FILE # 19871179128 WAS FILED IN THIS OFFICE ON October 06, 1958 AND HAS
COMPLIED WITH THE APPLICABLE PROVISIONS OF THE LAWS OF THE STATE OF COLORADO
AND ON THIS DATE IS IN GOOD STANDING AND AUTHORIZED AND COMPETENT TO TRANSACT
BUSINESS OR TO CONDUCT ITS AFFAIRS WITHIN THIS STATE.

Dated: November 14, 1997

/s/ Victoria Buckley
SECRETARY OF STATE

STATE OF NORTH DAKOTA
SECRETARY OF STATE

CERTIFICATE OF GOOD STANDING

OF

GeoResources, Inc.

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that GEORESOURCES, INC., a Colorado corporation, authorized to transact business in the State of North Dakota on December 3, 1962, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing foreign corporations.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

GEORESOURCES, INC.

Dated: November 20, 1997

/s/ Alvin A. Jaeger

Alvin A. Jaeger
Secretary of State

PROMISSORY NOTE

\$3,000,000

December 5, 1997
Billings, Montana

FOR VALUE RECEIVED, GEORESOURCES, INC., a Colorado corporation ("Borrower"), promises to pay to the order of NORWEST BANK MONTANA, NATIONAL ASSOCIATION ("Payee"), the principal sum of \$3,000,000, or such lesser amount as may be borrowed hereunder, together with interest on the outstanding unpaid balance of such principal amount at the rate provided below.

This Note is issued pursuant to, and is subject to the terms and provisions of, the Amended and Restated Secured Term Loan and Revolving Credit Agreement (the "Credit Agreement"), dated as of December 5, 1997, between Borrower and Payee. Except as otherwise defined herein, terms defined in the Credit Agreement shall have the same meanings when used herein.

The outstanding principal amount of this Note shall be payable as provided in the Credit Agreement. The entire outstanding principal balance of this Note shall be due and payable on January 5, 2005 (unless payable sooner pursuant to the terms of the Credit Agreement) and shall bear interest initially at the fluctuating rate, adjustable the day of any change, equal to the annual rate publicly announced or published from time to time by Norwest Bank Minnesota, National Association as its "base" or "prime" rate, which may not be the lowest interest rate charged by Payee (the "Base Rate"), plus three-quarters of one percentage point per annum.

Interest shall accrue daily, shall be payable on the fifth day of each month, commencing January 5, 1998, and at the maturity of this Note.

All payments of principal and interest hereon shall be made at Payee's offices at 175 North 27th Street, Billings, Montana 59101 (or at such other place as Payee shall have designated to Borrower in writing) on the date due in immediately available funds and without set-off or counterclaim or deduction of any kind. All payments received hereunder shall be applied first to costs of collection, second to accrued interest as of the date of payment and third to the outstanding principal balance of this Note.

This Note is secured by, and the holder of this Note is entitled to the benefits of, the documents described in the Credit Agreement (the "Security Documents"). Reference is made to the Security Documents for a description of the property covered thereby and the rights, remedies and obligations of the holder hereof in respect thereto.

Subject to the expiration of any applicable period of grace provided for in the Credit Agreement, in the event of (a) any default in any payment of the principal of or interest on this Note when due and payable, or (b) any other Event of Default (as defined in the Credit Agreement), then the whole principal sum of this Note plus accrued interest and all other obligations of

Borrower to holder, direct or indirect, absolute or contingent, now existing or hereafter arising, shall, at the option of Payee, become immediately due and payable, and any or all of the rights and remedies provided herein and in the Credit Agreement and the Security Documents, as they may be amended, modified or supplemented from time to time may be exercised by Payee.

If Borrower fails to pay any amount due under this Note and Payee has to take any action to collect the amount due or to exercise its rights under the Security Documents, including without limitation retaining attorneys for collection of this Note, or if any suit or proceeding is brought for the recovery of all or any part of or for protection of the indebtedness or to foreclose the Security Documents or to enforce Payee's rights under the Security Documents, then Borrower agrees to pay on demand all reasonable costs and expenses of any such action to collect, suit or proceeding, or any appeal of any such suit or proceeding, incurred by Payee, including without limitation the reasonable fees and disbursements of Payee's attorneys and their staff.

Borrower waives presentment, notice of dishonor and protest, and assents to any extension of time with respect to any payment due under this Note, to any substitution or release of collateral and to the addition or release of any party, except as provided in the Credit Agreement. No waiver of any payment or other right under this Note shall operate as a waiver of any other payment or right.

If any provision in this Note shall be held invalid, illegal or unenforceable in any jurisdiction, the validity, legality or enforceability of any defective provisions shall not be in any way affected or impaired in any other jurisdiction.

No delay or failure of the holder of this Note in the exercise of any right or remedy provided for hereunder shall be deemed a waiver of such right by the holder hereof, and no exercise of any right or remedy shall be deemed a waiver of any other right or remedy that the holder may have.

All notices given hereunder shall be given as provided in the Credit Agreement.

This Note is to be governed by and construed according to the laws of the State of Montana.

GEORESOURCES, INC.

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

AMENDED AND RESTATED SECURED TERM LOAN AND

REVOLVING CREDIT AGREEMENT

THIS AMENDED AND RESTATED SECURED TERM LOAN AND REVOLVING CREDIT AGREEMENT, made as of December 5, 1997, is by and between GEORESOURCES, INC., a Colorado corporation (herein called "Borrower"), and NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association (herein called "Norwest").

RECITALS

A. Borrower and Norwest entered into an Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of September 1, 1995 (the "Prior Credit Agreement"), which provided for the following: (1) an amortizing term loan, the outstanding principal balance of which was \$300,000 as of September 1, 1995, which loan has been repaid in full, and (2) an amortizing term loan, the outstanding principal balance of which was \$765,000 as of September 1, 1995, and (3) a revolving line of credit in the maximum amount of \$1,000,000.

B. Borrower and Norwest wish to enter into this Amended and Restated Secured Term Loan and Revolving Credit Agreement in order to amend and restate in their entirety the terms and provisions of the Prior Credit Agreement and to provide for the terms upon which: (1) the loan and the line of credit described in Recitals A(2) and A(3) above will be continued, and (2) Norwest will make available to Borrower an additional revolving line of credit in the maximum amount of \$3,000,000.

AGREEMENT

IN CONSIDERATION of the following covenants, Borrower and Norwest agree as follows:

ARTICLE I

Definitions and Accounting Terms

Section 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means any advance made to Borrower pursuant to Section 2.01(c) below.

"Agreement" means this Amended and Restated Secured Term Loan and Revolving Credit Agreement, as the same may hereafter be amended from time to time.

"Borrowing Base" means, at any time, the aggregate loan value of the Collateral, as determined by Norwest in accordance with the provisions of Section 2.09 below; provided that the Borrowing Base for the time period from the date of this Agreement through March 31, 1998 shall be \$3,691,000, unless

Borrower and Norwest hereafter mutually agree upon a different amount or unless the Borrowing Base is redetermined pursuant to the terms of this Agreement prior to the end of such time period.

"Business Day" means any day other than a Saturday, Sunday or legal holiday in the State of Montana on which banks are not required to be open for business in Billings, Montana.

"Collateral" means any and all oil or gas properties, oil or gas interests and related assets and properties covered by any of the Security Documents.

"Current Ratio" means, at any time and from time to time, the ratio of: (a) Borrower's current assets; to (b) Borrower's current liabilities (excluding regularly scheduled current maturities of long-term debt), all determined in accordance with generally accepted accounting principles consistently applied.

"Debt" means, for any Person: (a) all items of indebtedness or liabilities which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liability side of a balance sheet of that Person as of the date as of which Debt is to be determined, and (b) indebtedness secured by any mortgage, pledge, lien or security interest existing on property owned by such Person, whether or not the indebtedness secured thereby shall have been assumed.

"Event of Default" means any of the events described in Section 6.01 below.

"Loan Documents" shall mean this Agreement, the 1993 Revolver/Term Note, the 1995 Note, the 1997 Note, the Security Documents and any other documents executed by Borrower pursuant hereto.

"Maximum 1995 Loan Amount" means, at any time, the lesser of: (a) (1) the Borrowing Base, minus (2) the then-outstanding principal balance of the 1997 Loan, minus (3) the then-outstanding principal balance of the 1993 Revolver/Term Loan; or (b) \$1,000,000.

"Maximum 1997 Loan Amount" means, at any time, the lesser of: (a) (1) the Borrowing Base, minus (2) the then-outstanding principal balance of the 1995 Loan, minus (3) the then-outstanding principal balance of the 1993 Revolver/Term Loan; or (b) \$3,000,000.

"Minimum 1995 Loan Payment Amount" means the following:

(a) with respect to any Payment Date occurring on or before December 5, 1997, the amount of interest accrued on the 1995 Loan through such Payment Date;

(b) with respect to any Payment Date occurring after December 5, 1997 but prior to December 5, 2001, the sum of: (1) the amount of interest

accrued on the 1995 Loan through such Payment Date, plus (2) the product of: (A) 0.02083333 (1/48), times (B) the outstanding principal balance of the 1995 Loan as of the close of business on December 8, 1997; and

(c) with respect to the maturity date of the 1995 Loan on December 5, 2001, the outstanding principal balance of the 1995 Loan plus interest accrued through such date.

"Minimum 1997 Loan Payment Amount" means the following:

(a) with respect to any Payment Date occurring on or before January 5, 2001, the amount of interest accrued on the 1997 Loan through such Payment Date;

(b) with respect to any Payment Date occurring after January 5, 2001 but prior to January 5, 2005, the sum of: (1) the amount of interest accrued on the 1997 Loan through such Payment Date, plus (2) the product of: (A) 0.02083333 (1/48), times (B) the outstanding principal balance of the 1997 Loan as of the close of business on January 5, 2001; and

(c) with respect to the maturity date of the 1997 Loan on January 5, 2005, the outstanding principal balance of the 1997 Loan plus interest accrued through such date.

"Notes" means the 1995 Note, the 1997 Note and the 1993 Revolver/Term Note.

"Oil and Gas Properties" means from time to time, all oil and/or gas properties, pipelines, gathering systems, gas plants and related interests owned by Borrower.

"Payment Date" means the fifth day of each month, commencing January 5, 1998.

"Person" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a foreign state or political subdivision thereof or any agency of such state or subdivision.

"Prior Credit Agreement" means the agreement defined as such in Recital A above.

"Related Person" means any other Person controlled by, controlling or under common control with Borrower, including without limitation any subsidiary of Borrower and any officer or director of Borrower.

"Security Documents" means the Mortgage, Security Agreement, Assignment of Production and Financing Statement dated as of April 29, 1993, from Borrower to Norwest's predecessor and any and all the deeds of trust, mortgages, chattel mortgages, assignments of proceeds, security agreements, financing statements, pledge agreements, assignments of and/or amendments to

any of the foregoing and other instruments in form and substance satisfactory to Norwest executed by Borrower as provided herein, granting to and perfecting in favor of Norwest first and prior liens on or security interests in any portion of the Oil and Gas Properties required pursuant to this Agreement.

"Tangible Net Worth of Borrower" means the excess of: (a) the tangible assets of Borrower, determined in accordance with generally accepted accounting principles, after deducting adequate reserves in each case where, in accordance with generally accepted accounting principles, a reserve is proper, over (b) all Debt of Borrower; provided however, that: (1) in no event shall there be included as tangible assets, patents, trademarks, tradenames, copyrights, licenses, goodwill, prepaid expenses to the extent they exceed \$50,000 in the aggregate, deferred charges, notes or accounts receivable due from Related Persons, or any securities unless the same are readily marketable in the United States of America or entitled to be used as a credit against federal income tax liabilities, (2) securities included as such tangible assets shall be taken into account as required by generally accepted accounting principles applicable to publicly-traded companies, and (3) any write-up in the book value of any assets shall not be taken into account.

"1993 Revolver/Term Loan" means the loan described in Recital A(2) above, and any and all modifications to such loan as may be contemplated by Section 2.01(b) below.

"1993 Revolver/Term Note" means the Promissory Note dated as of April 29, 1993, made by Borrower, payable to the order of NBB, in the face amount of \$1,000,000, as previously amended and as amended by an Allonge in the form of Exhibit A attached hereto and made a part hereof, which promissory note, as so amended, shall evidence the 1993 Revolver/Term Loan.

"1995 Loan" means the revolving line of credit made available to Borrower by Norwest in accordance with the terms of this Agreement, as such revolving line of credit is to be converted to an amortizing term loan as of December 8, 1997 in accordance with the terms of this Agreement.

"1995 Note" means the Promissory Note dated September 1, 1995, made by Borrower, payable to the order of Norwest, in the face amount of \$1,000,000, as amended by an Allonge in the form of Exhibit B attached hereto and made a part hereof, which promissory note, as so amended, shall evidence the 1995 Loan.

"1997 Loan" means the revolving line of credit made available to Borrower by Norwest in accordance with the terms of this Agreement, as such revolving line of credit is to be converted to an amortizing term loan as of January 5, 2001 in accordance with the terms of this Agreement.

"1997 Note" means the Promissory Note of even date herewith, made by Borrower, payable to the order of Norwest, in the form of Exhibit C attached hereto and made a part hereof, which 1997 Note shall evidence the 1997 Loan.

Section 1.02. Accounting Terms. All accounting terms not specifically

defined herein shall be construed in accordance with generally accepted accounting principles consistently applied.

ARTICLE II

The Loans

Section 2.01. The Loans. (a) As of September 1, 1995, the 1993 Revolver/Term Loan was converted from a revolving line of credit to an amortizing term loan in an amount equal to \$765,000, the outstanding principal balance of the 1993 Revolver/Term Loan as of the close of business on August 31, 1995. The 1993 Revolver/Term Loan shall be governed by the terms of this Agreement and, as to certain matters (e.g., the amount and timing of principal payments, the interest rate and the timing of interest payments), by the terms of the 1993 Revolver/Term Note.

(b) As of December 8, 1997, the 1995 Loan is to be converted from a revolving line of credit to an amortizing term loan in an amount equal to \$700,000, the outstanding principal balance of the 1995 Loan as of the close of business on December 8, 1997. The 1995 Loan shall be governed by the terms of this Agreement and, as to certain matters, by the terms of the 1995 Note.

(c) Subject to the terms and conditions hereof, Norwest agrees to make Advances on the 1997 Loan to Borrower from time to time at the request of Borrower upon at least one Business Day's notice to Norwest from Borrower; provided that Norwest shall not have any obligation to: (1) make any Advance after January 5, 2001; (2) make any Advance in an amount less than \$10,000; (3) make any Advance if, after the making of such Advance, the aggregate outstanding principal balance of the 1997 Loan would exceed the Maximum 1997 Loan Amount. Within the limitation of the Maximum 1997 Loan Amount, and subject to the other terms and provisions hereof, Borrower may borrow, repay and reborrow hereunder.

Section 2.02. The Notes; Interest. (a) Borrower's obligation to repay the 1995 Loan, with interest thereon, shall be evidenced by the 1995 Note. The 1995 Note shall bear interest on the outstanding principal balance thereof at the rates per annum provided in the 1995 Note. Borrower shall pay all accrued and unpaid interest due on the 1995 Note on each Payment Date, including without limitation on December 5, 2001, the maturity date of the 1995 Loan.

(b) Borrower's obligation to repay the 1997 Loan, with interest thereon, shall be evidenced by the 1997 Note. The 1997 Note shall bear interest on the outstanding principal balance thereof at the rates per annum provided in the 1997 Note. Borrower shall pay all accrued and unpaid interest due on the 1997 Note on each Payment Date, including without limitation on January 5, 2005, the maturity date of the 1997 Loan.

Section 2.03. Mandatory Payments.

(a) On each Payment Date, Borrower shall make the following

payments to Norwest: (1) a payment on the 1995 Loan in the amount of the Minimum 1995 Loan Payment Amount, and (2) a payment on the 1997 Loan in the amount of the Minimum 1997 Loan Payment Amount, which payments shall be in addition to: (A) any amounts payable (whether on a Payment Date or otherwise) with respect to the 1993 Revolver/Term Loan, and (2) any amounts payable with respect to the 1995 Loan or the 1997 Loan as otherwise set forth in this Agreement, including without limitation as described in Section 2.03(b) below.

(b) If the aggregate outstanding principal balance of the 1995 Loan shall at any time exceed the Maximum 1995 Loan Amount and/or if the aggregate outstanding principal balance of the 1997 Loan shall at any time exceed the Maximum 1997 Loan Amount, Borrower shall, not later than 20 days after written notice thereof from Norwest: (1) pay the excess to Norwest in a lump sum; or (2) execute and deliver to Norwest additional mortgages, supplements to mortgages or other instruments satisfactory in form and substance to Norwest, by which Borrower mortgages, pledges or hypothecates to Norwest, or creates a security interest in for the benefit of Norwest, sufficient additional collateral to induce Norwest to make a redetermination of the Borrowing Base such that the Maximum 1995 Loan Amount is an amount no less than the aggregate outstanding principal balance of the 1995 Loan and the Maximum 1997 Loan Amount is an amount no less than the aggregate outstanding principal balance of the 1997 Loan.

(c) The entire outstanding principal balance of the 1995 Loan shall be due and payable, if not sooner paid, on December 5, 2001. The entire outstanding principal balance of the 1997 Loan shall be due and payable, if not sooner paid, on January 5, 2005.

Section 2.04. Time of Payments; Computations.

(a) Borrower shall make each payment hereunder and under each of the Notes not later than 12:00 noon (Billings, Montana time) on the day when due in lawful money of the United States of America to Norwest at its office at 175 North 27th Street, Billings, Montana 59101 or at any other location designated by Norwest.

(b) All computations of interest shall be made by Norwest on the basis of a year of 365 or 366 days, as applicable, for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable.

(c) Should any payment become due and payable on a day other than a Business Day, the maturity of such payment shall be extended to the next succeeding Business Day, and, in the case of a payment of principal or past due interest, interest shall accrue and be payable thereon for the period of such extension.

Section 2.05. Termination of Agreement. Borrower shall have the right at any time and from time to time, upon not less than three business days' prior written notice to Norwest, to terminate this Agreement. Upon any termination of this Agreement, Borrower shall, at the time of such

termination, prepay all of the Notes in full. Any such prepayment shall be without penalty or premium.

Section 2.06. Prepayment of the Loans. Borrower shall have the right to prepay the principal amount of the 1993 Revolver/Term Loan, the 1995 Loan or the 1997 Loan at any time as provided herein. Partial prepayments shall be in the amount of \$10,000 or integral multiples thereof. Each prepayment shall be without premium or penalty. All prepayments shall first be applied to any and all accrued interest and unpaid fees and then to unpaid principal, in the inverse order of approaching maturities.

Section 2.07. Use of Proceeds. Proceeds of the 1995 Loan and the 1997 Loan shall be used by Borrower exclusively for the financing of Borrower's working capital requirements and capital expenditures relating to the acquisition, exploration and development of oil and gas properties.

Section 2.08. Fee. Borrower shall pay to Norwest, contemporaneously with the execution and delivery of this Agreement, an origination fee in respect of the 1997 Loan in the amount of \$7,500.

Section 2.09. Borrowing Base Procedures. The Borrowing Base will be re-determined at least annually by Norwest, as of April 1 of each year through April 1, 2004 (and, at Norwest's sole discretion, Norwest may re-determine the Borrowing Base at such other times as Norwest may elect to do so), in accordance with the "Borrowing Base Calculations" described in Exhibit E attached hereto and made a part hereof, based upon the engineering reports submitted by Borrower pursuant to Article V below, the production information submitted by Borrower pursuant to Article V below and such other information and data as Norwest deems relevant, and using such assumptions as to pricing, discount factors, discount rates, expenses, oil and gas prices and price escalators, operating expense escalators and other factors as Norwest customarily uses as to borrowing-base oil and gas loans at the time such re-determination is made. If any such re-determination of the Borrowing Base by Norwest results in a change in the Borrowing Base from the Borrowing Base previously in effect, Norwest shall advise Borrower of such change by providing to Borrower written notice thereof; provided that if Norwest does not provide such a notice, then, unless Norwest gives notice to the contrary to Borrower, the Borrowing Base from the previous period shall be carried over into the new period until a notice is sent to Borrower by Norwest.

Section 2.10. The Security. Borrower's obligations hereunder will be secured by the existing Security Documents and any additional Security Documents hereafter delivered by Borrower and accepted by Norwest.

ARTICLE III

Conditions Precedent to 1995 Loan and 1997 Loan

Section 3.01. Conditions Precedent to 1995 Loan and 1997 Loan. Norwest shall have no obligation to make the initial Advance or any subsequent Advance under the 1995 Loan or the 1997 Loan unless Norwest shall have received all of

the following at its office in Billings, Montana, duly executed and delivered and in form, substance and date satisfactory to Norwest:

- (a) The Notes, including the allonges thereto.
- (b) The Security Documents.
- (c) An "Omnibus Certificate" of the Secretary of Borrower in the form of Exhibit D attached hereto and made a part hereof.
- (d) The fee payable by Borrower pursuant to Section 2.08 above.
- (e) Such title opinions, supplemental title opinions, UCC searches and other title information concerning Borrower's title to the Collateral or any portions thereof as may be satisfactory to Norwest.
- (f) A written certification by Borrower that the Collateral has been operated in compliance with all federal, state and local environmental and waste disposal laws and/or copies of any notices or communications received from any federal, state or local authorities asserting that a violation of such laws may have, or has, occurred, whether or not such assertions are being contested by Borrower.
- (g) Any and all other Loan Documents.

Section 3.02. Additional Conditions Precedent. Norwest shall have no obligation to make the first or any subsequent Advance unless the following conditions precedent have been satisfied:

- (a) All representations and warranties made by Borrower in any Loan Document shall be true on and as of the date of such Advance as if such representations and warranties had been made as of the date hereof.
- (b) No Event of Default, and no event or condition which, with the giving of notice, the lapse of time, or both, would constitute an Event of Default, shall exist as of the date of such Advance.
- (c) Borrower shall have performed and complied with all agreements and conditions herein required to be performed or complied with by it on or prior to the date of such Advance.

ARTICLE IV

Representations and Warranties

Section 4.01. Borrower's Representations and Warranties. To induce Norwest to enter into this Agreement and to make the 1995 Loan and the 1997 Loan, Borrower represents and warrants to Norwest (which representations and

warranties shall survive the delivery of the 1995 Note and the 1997 Note and shall be deemed to be continuing representations and warranties until repayment in full of the 1995 Note and the 1997 Note and termination of this Agreement) that:

- (a) Organization and Good Standing. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado, having all corporate powers required to carry on its business and enter into and carry out the transactions contemplated hereby. Borrower is duly qualified, in good standing, and authorized to do business in all other jurisdictions wherein the character of the properties owned or held by it or the nature of the business transacted by it makes such qualification necessary.
- (b) Authorization. Borrower has duly taken all corporate action necessary to authorize the execution and delivery by it of the Loan Documents and to authorize the consummation of the transactions contemplated thereby and the performance of its obligations thereunder.
- (c) No Conflicts or Consents. The execution and delivery by Borrower of the Loan Documents, the performance by Borrower of its obligations under such Loan Documents, and the consummation of the transactions contemplated by the various Loan Documents, do not conflict with any provision of any of the organizational documents of Borrower or any agreement, judgment, license, order or permit applicable to or binding upon Borrower.
- (d) Enforceable Obligations. This Agreement and the other Loan Documents constitute legal and binding obligations of Borrower, enforceable in accordance with their respective terms.
- (e) Financial Statements. The financial statements heretofore furnished by Borrower to Norwest fairly present Borrower's financial position at the date thereof and the results of Borrower's operations and the changes in Borrower's financial position for the period thereof. Since the date of the most recent of said financial statements, no material adverse change has occurred in Borrower's financial condition or business.
- (f) Litigation. (1) There are no actions, proceedings or suits pending or threatened against Borrower before any court, department, commission, body, board, bureau, agency, or instrumentality, which do or may materially and adversely affect Borrower, Borrower's ownership or use of any of its assets or properties, its business or financial condition or prospects, or the right or ability of Borrower to enter into the Loan Documents or perform its obligations thereunder, and (2) there are no outstanding judgments, injunctions, writs, rulings or orders by any such governmental entity against Borrower which have or may

have any such effect.

- (g) Title to Properties. To the best of Borrower's knowledge, Borrower has good and defensible title to the Collateral, free and clear of all liens, encumbrances and defects of title, except for liens, encumbrances and defects which do not have a material adverse effect upon the value of the Collateral, taken as a whole.
- (h) Place of Business. The chief executive office and principal place of business of Borrower are located at the address of Borrower set out in Section 7.03.
- (i) Use of Proceeds. Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U or X of the Board of Governors of the Federal Reserve System), and no part of the proceeds of the 1995 Loan or the 1997 Loan will be used to purchase or carry any such margin stock or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock.

Section 4.02. Representations by Norwest. Norwest hereby represents that it will acquire the 1997 Note for its own account in the ordinary course of its commercial banking business; however, the disposition of Norwest's property shall at all times be and remain within its control and this section does not prohibit Norwest's sale of the 1997 Note or of any participation in the 1997 Note to any bank, financial institution or similar purchaser.

ARTICLE V

Covenants of Borrower

Section 5.01. Affirmative Covenants. Borrower warrants, covenants and agrees that until the full and final payment of Borrower's obligations hereunder and the termination of this Agreement, unless Norwest has previously agreed otherwise in writing:

(a) Payment and Performance. Borrower will pay all amounts due under the Loan Documents in accordance with the terms thereof and will in all material respects observe, perform and comply with every covenant, term and condition, express or implied, in the Loan Documents.

(b) Books. Financial Statements and Records. Borrower will at all times maintain full and accurate books of account and records. Borrower will maintain a standard system of accounting and will furnish the following statements and reports to Norwest at Borrower's expense:

- (1) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of Borrower, an unaudited balance sheet of Borrower as at the end of such quarter and related statements of income,

retained earnings and cash flow of Borrower for such quarterly period and for the fiscal year to date, in reasonable detail and stating in comparative form the figures for the corresponding periods in the previous year, all prepared in accordance with generally accepted accounting principles (Borrower's 10-Q report);

- (2) as soon as available, and in any event within 120 days after the end of each fiscal year of Borrower, a copy of the annual audit report of Borrower, with the unqualified opinion of a certified public accountant chosen by Borrower and acceptable to Norwest, prepared in reasonable detail and in accordance with generally accepted accounting principles, containing at least a balance sheet as of the end of such fiscal year of Borrower and a statement of income, retained earnings and cash flow, setting forth in comparative form the corresponding figures for the preceding fiscal year of Borrower (Borrower's 10-K report);
- (3) upon written or telephonic request from Norwest, a report in form satisfactory to Norwest disclosing with respect to the month of such request: (A) the amount of oil, gas, and other hydrocarbon minerals produced from or allocated to each well included in the Collateral; (B) the amount of such production per well attributable to Borrower's interest; (C) the amount of the actual proceeds from the sale of such oil, gas, and other hydrocarbon minerals per well and the amount of such proceeds attributable to Borrower's interest; (D) the amount of Borrower's share of: (i) the actual costs and expenses incurred to make such oil, gas and other hydrocarbon minerals marketable and to transport the same to the point or points of delivery to the purchaser, and (ii) production, severance or other taxes required to be paid with respect to such production and sale, and (E) the amount actually received by Borrower from the sale of such oil, gas and other hydrocarbon minerals per well; and
- (4) annually (by March 1 of each year, commencing March 1, 1998) until all of the Notes are paid in full and this Agreement has been terminated, and at such other times as Norwest may reasonably request, a report in form satisfactory to Norwest, certified by an independent petroleum engineer satisfactory to Norwest, setting forth the proven producing oil and gas reserves attributable to Borrower's interest in the currently producing wells on the Collateral, together with a forecast of the rates of production therefrom and the estimated income to Borrower from such production, calculated in a manner satisfactory to Norwest, for the estimated economic life of such properties.

(c) Other Information and Inspections. Borrower will furnish to

Norwest any information which Norwest may from time to time reasonably request concerning any covenant, provision or condition of the Loan Documents or any matter in connection with Borrower's business and operations and will permit representatives appointed by Norwest to visit and inspect, upon reasonable notice to Borrower and at their sole risk, any and all of such properties and facilities, including Borrower's books of account, other books and records, and any facilities or other business assets.

(d) Notice of Material Events. Borrower will promptly notify Norwest: (1) of any material adverse change in the financial condition of, or any material occurrence (including without limitation acceleration of Debts, filing of suits or claims) with respect to, Borrower, (2) of the filing of any suit or proceeding against Borrower (or the occurrence of any material development in any such suit or proceeding) in which an adverse decision could have a material adverse effect upon Borrower's financial condition, business or operations (or could result in a judgment not covered by insurance of \$250,000 or more against Borrower), or (3) of the occurrence of any Event of Default or of any event or condition which, with the giving of notice, the lapse of time, or both, would constitute an Event of Default. Borrower will also notify Norwest in writing at least twenty Business Days prior to the date that Borrower changes its name or the location of its chief executive office or principal place of business or the place where it keeps its books and records concerning the Collateral, furnishing with such notice any necessary financing statement amendments or requesting that Norwest prepare the same.

(e) Maintenance of Existence and Qualifications. Borrower will maintain and preserve its corporate existence and its rights and franchises in full force and effect and will qualify to do business as a foreign corporation in all places where required by applicable law.

(f) Payment of Trade Debt, Taxes, etc. Borrower will: (1) timely file all required tax returns; (2) timely pay all taxes, assessments, and other governmental charges or levies imposed upon it or upon its income, profits or property; and (3) timely pay all Debt owed by it on ordinary trade terms to vendors, suppliers and other Persons providing goods and services used by it in the ordinary course of its business. Borrower may, however, delay paying or discharging any such Debt so long as it is in good faith contesting the validity thereof by appropriate proceedings.

(g) Payment of Expenses. Borrower will promptly (and in any event within 30 days after any invoice or other statement or notice) pay all reasonable costs and expenses incurred by or on behalf of Norwest (including attorneys' fees) in connection with: (1) the preparation, execution and delivery of the Loan Documents (including without limitation any and all future amendments or supplements thereto or restatements thereof), and any and all consents, waivers or other documents or instruments relating thereto, (2) the filing, recording, re-filing and re-recording of any Security Documents and any other documents or instruments or further assurances required to be filed or recorded or refiled or re-recorded by the terms of any Loan Document, (3) the examination of Borrower's title to the Collateral, and (4) the enforcement, after the occurrence of a Default or an Event of Default, of the

Loan Documents.

(h) Compliance with Agreements and Law. Borrower will perform all material obligations it is required to perform under the terms of each indenture, mortgage, deed of trust, security agreement, lease, franchise, agreement, contract or other instrument or obligation to which it is a party or by which it or any of its properties is bound, in such a way that they result in no material adverse effect upon the Collateral or Borrower's ability to perform its obligations under this Agreement. Borrower will conduct its business and affairs in compliance in all material respects with all laws, regulations, and orders applicable thereto (including without limitation those relating to pollution and other environmental matters).

(i) Additional Security Documents. Promptly after a request therefor by Norwest at any time and from time to time, Borrower will execute and deliver to Norwest such additional Security Documents and/or amendments to existing Security Documents as Norwest may deem necessary or appropriate in order to grant to Norwest a perfected lien on and security interest in sufficient oil and/or gas interests owned by Borrower to maintain the Borrowing Base at an amount greater than the aggregate outstanding principal balances of the 1993 Revolver/Term Loan, the 1995 Loan and the 1997 Loan.

(j) Further Assurances. Borrower will execute and deliver such other and further instruments and will do such other and further acts as may be reasonably required by Norwest to be necessary or desirable to carry out more effectively the purpose of this Agreement, including without limitation: (1) prompt correction of any defect which may hereafter be discovered in the title to the Collateral or in the execution and acknowledgement of this Agreement, the Notes, the Security Documents or any other Loan Documents, and (2) prompt execution and delivery of any division or transfer orders and other documents which in the opinion of Norwest are needed to effectuate the transfer to Norwest of the proceeds of production from the Collateral or any part thereof, pursuant to the Security Documents.

(k) Current Ratio. Borrower will at all times maintain a Current Ratio of not less than 1.25:1.00.

(l) Debt to Worth Ratio. Borrower will at all times maintain a ratio of: (1) Borrower's Debt, to (2) the Tangible Net Worth of Borrower, of not more than 1.50:1.00.

Section 5.02. Negative Covenants. Borrower warrants, covenants and agrees that until the full and final payment of Borrower's obligations hereunder and the termination of this Agreement, unless Norwest has previously agreed otherwise in writing:

(a) Limitation on Liens. Borrower will not create, assume or permit to exist any Lien upon any of the Collateral, whether now owned or hereafter acquired, except: (1) Liens at any time existing in favor of Norwest; and (2) statutory Liens for taxes, statutory or contractual mechanics' and materialmen's Liens incurred in the ordinary course of

business, and other similar Liens incurred in the ordinary course of business; provided that such Liens secure only Debt which is not delinquent.

(b) Additional Debt. Borrower will not create, incur, assume or permit to exist Debt except: (1) the 1993 Revolver/Term Loan, the 1995 Loan and the 1997 Loan; (2) trade debt owed to suppliers, pumpers, mechanics, materialmen and others furnishing goods or services to Borrower in the ordinary course of business; and (3) existing Debt heretofore disclosed by Borrower to Norwest in writing.

(c) Limitation on Sales of Property. Borrower will not sell, transfer, lease, exchange, alienate or dispose of any of the Collateral except as follows (and the following exceptions shall be subject to any limitations contained in the Security Documents): (1) equipment which is worthless or obsolete, which is replaced by equipment of equal suitability and value or which is salvaged from wells which have been plugged and abandoned by or on behalf of Borrower; and (2) inventory (including oil and gas sold as produced) which is sold in the ordinary course of business.

(d) Limitation on Credit Extensions. Borrower will not extend credit, make advances or make loans other than: (1) normal and prudent extensions of credit to customers buying goods and services in the ordinary course of business, which extensions shall not be for longer periods than those extended by similar businesses operated in a normal and prudent manner; and (2) other extensions of credit, advances and loans which, when added to the dollar amount of any assumptions, guaranties, endorsements and secondary liabilities permitted to be outstanding under the provisions of Section 5.02(f) below, are in an amount not greater than \$250,000.

(e) Reorganizations; Combinations. Borrower will not: (1) change its name, its fiscal year or the nature of its business, (2) reorganize, liquidate or dissolve, or (3) enter into any merger or other combination in which it is not the surviving corporation.

(f) Limitation on Guarantees. Borrower will not assume, guarantee, endorse or be or become secondarily liable for any Debt which is the primary obligation of any other Person, other than assumptions, guaranties, endorsements and secondary liabilities which, when added to the dollar amount of any extensions of credit, advances and loans permitted to be outstanding under the provisions of Section 5.02(d)(2) above, are in an amount not greater than \$250,000.

ARTICLE VI

Events of Default and Remedies

Section 6.01. Events of Default. Each of the following events constitutes an Event of Default under this Agreement:

(a) Borrower fails to pay any interest on or principal of any of the Notes (including without limitation any mandatory prepayment thereof) or

any fees hereunder when due and payable, and such failure is not remedied within a period of 20 calendar days; or

(b) Borrower fails to pay any other indebtedness under this Agreement or any of the Security Documents when due and payable, and such failure is not remedied within a period of 20 calendar days; or

(c) Any "default" or "event of default," including the expiration of any applicable period of grace, occurs under any Loan Document which defines either term; or

(d) Any representation or warranty previously, presently or hereafter made in writing by or on behalf of Borrower in connection with any Loan Document shall prove to have been false or incorrect in any material respect on any date on or as of which made; or

(e) Borrower fails to duly observe, perform or comply with any covenant, agreement, condition or provision of this Agreement (except for those specifically described elsewhere in this Article VI), and such failure is not remedied within 30 days after Norwest gives notice to Borrower of such failure; or

(f) Borrower: (1) commences a voluntary case under any applicable bankruptcy, insolvency or similar law; (2) suffers the entry against it of a judgment, decree or order for relief by a court of competent jurisdiction in an involuntary proceeding commenced under any applicable bankruptcy, insolvency or similar law; (3) suffers the appointment of a receiver, custodian, trustee or similar official for a substantial part of its assets; (4) makes a general assignment for the benefit of creditors; (5) fails generally to pay (or admits in writing its inability to pay) its debts as such debts become due; or (6) suffers the entry against it of a final judgment for the payment of money in excess of \$250,000 (not covered by insurance), unless the same is discharged within 30 days after the date of entry thereof or an appeal or appropriate proceeding for review thereof is taken within such period and a stay of execution pending such appeal is obtained; or

(g) There occurs a material change in the management of Borrower that Norwest determines, in its sole discretion, results in, or is likely to result in, a change in the operation of the business of Borrower that may adversely impact the collectability of Norwest's loans to Borrower, or Borrower's ability to service such loans.

Upon the occurrence of an Event of Default described in subsection (f) of this Section, the 1993 Revolver/Term Loan, the 1995 Loan and the 1997 Loan shall thereupon be immediately due and payable, without presentment, demand, protest, notice of protest, declaration or notice of acceleration or intention to accelerate, or any other notice or declaration of any kind, all of which are hereby expressly waived by Borrower. During the continuance of any other Event of Default, Norwest at any time and from time to time (unless all Events of Default have theretofore been remedied) may declare any or all of the 1993 Revolver/Term Loan, the 1995 Loan and the 1997 Loan immediately due and

payable, and the 1993 Revolver/Term Loan, the 1995 Loan and the 1997 Loan shall thereupon be immediately due and payable.

Section 6.02. Remedies. If any Event of Default (or any event or condition which, with the giving of notice, the lapse of time, or both, would constitute an Event of Default) shall occur and be continuing, the obligation of Norwest to make Advances under this Agreement shall terminate immediately. If any Event of Default shall occur, Norwest may protect and enforce its rights under the Loan Documents by any appropriate proceedings, including proceedings for specific performance of any covenant or agreement contained in any Loan Document, and Norwest may enforce the payment of Borrower's obligations hereunder or enforce any other legal or equitable right. All rights, remedies and powers conferred upon Norwest under the Loan Documents shall be deemed cumulative and not exclusive of any other rights, remedies or powers available under the Loan Documents or at law or in equity.

Section 6.03. Indemnity. Borrower hereby agrees to indemnify, defend and hold harmless Norwest and its agents, affiliates, officers, directors and employees from and against any and all claims, losses, demands, actions, causes of action, and liabilities whatsoever (including without limitation reasonable attorneys' fees and expenses, and costs and expenses reasonably incurred in investigating, preparing or defending against any litigation or claim, action, suit, proceeding or demand of any kind or character) arising out of or resulting from: (a) the Loan Documents (including without limitation the enforcement thereof), except to the extent such claims, losses, and liabilities are proximately caused by a Norwest's gross negligence, willful misconduct or breach of the Loan Documents, and (b) the contamination of the Collateral by any hazardous substance or environmental pollutant in violation of any federal, state or local environmental statute, rule, regulation or ordinance, including without limitation violation of the Comprehensive Environmental Response, Compensation and Liability Act, as amended from time to time, or of the Resource Conservation and Recovery Act, as amended from time to time.

ARTICLE VII

Miscellaneous

Section 7.01. Waiver and Amendment. No failure or delay by Norwest in exercising any right, power or remedy which it may have under any of the Loan Documents shall operate as a waiver thereof. No waiver of any provision of any Loan Document and no consent to any departure therefrom shall ever be effective unless it is in writing and signed by Norwest. This Agreement and the other Loan Documents set forth the entire understanding between the parties hereto, and no modification or amendment of or supplement to this Agreement or the other Loan Documents shall be valid or effective unless the same is in writing and signed by the party against whom it is sought to be enforced.

Section 7.02. Survival of Agreements; Cumulative Nature. All of Borrower's various representations, warranties, covenants and agreements in

the Loan Documents shall survive until Borrower's obligations hereunder have been paid in full.

Section 7.03. Notices. All notices, requests, consents, demands and other communications required or permitted hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by expedited delivery service or by United States mail, postage prepaid, at the addresses specified below (unless changed by similar notice in writing given by the particular Person whose address is to be changed), and, when so given, shall be deemed effective upon delivery:

Borrower's address: 1407 West Dakota Parkway
P.O. Box 1505
Williston, North Dakota 58801
Attention: Jeffrey P. Vickers

Norwest's address: 175 North 27th Street
Billings, Montana 59101
Attention: Douglas P. Kraft

Section 7.04. Parties in Interest. All grants, covenants and agreements contained in the Loan Documents shall bind and inure to the benefit of the parties thereto and their respective successors and assigns; provided that Borrower may not assign or transfer any of its rights or delegate any of its duties or obligations under any Loan Document without the prior consent of Norwest.

Section 7.05. GOVERNING LAW. THE LOAN DOCUMENTS SHALL BE DEEMED CONTRACTS AND INSTRUMENTS MADE UNDER THE LAWS OF THE STATE OF MONTANA AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF MONTANA AND THE LAWS OF THE UNITED STATES OF AMERICA, EXCEPT (A) TO THE EXTENT THAT THE LAW OF ANOTHER JURISDICTION IS EXPRESSLY ELECTED IN A LOAN DOCUMENT, AND (B) WITH RESPECT TO SPECIFIC LIENS, OR THE PERFECTION THEREOF, EVIDENCED BY SECURITY DOCUMENTS COVERING REAL OR PERSONAL PROPERTY WHICH BY THE LAWS APPLICABLE THERETO ARE REQUIRED TO BE CONSTRUED UNDER THE LAWS OF ANOTHER JURISDICTION. BORROWER HEREBY IRREVOCABLY SUBMITS ITSELF TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS OF THE STATE OF MONTANA.

Section 7.06. Limitation on Interest. Norwest and Borrower intend to contract in strict compliance with applicable usury laws from time to time in effect. Norwest agrees to refund to Borrower any amounts paid by Borrower in excess of the maximum rate under applicable usury laws.

Section 7.07. Severability. If any term or provision of any Loan Document shall be determined to be illegal or unenforceable all other terms and provisions of the Loan Documents shall nevertheless remain effective and shall be enforced to the fullest extent permitted by applicable law.

Section 7.08. Counterparts. This Agreement may be separately executed in any number of counterparts and by different parties hereto in separate

counterparts, each of which when so executed shall be deemed to constitute one and the same Agreement.

Section 7.09. Entire Agreement. This Agreement, the Notes, the Security Documents and the other Loan Documents from time to time executed in connection herewith state the entire agreement between the parties with respect to the subject matter hereof. The terms and provisions of this Agreement shall supersede the terms and provisions of the Prior Credit Agreement in their entirety.

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

GEORESOURCES, INC.

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

NORWEST BANK MONTANA, NATIONAL
ASSOCIATION

By: /s/ Douglas P. Kraft
Douglas P. Kraft
Vice President

EXHIBIT A

ALLONGE

THIS ALLONGE, dated as of December 5, 1997, is by and between GEORESOURCES, INC., a Colorado corporation (herein called "Borrower"), and NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association (herein called "Norwest"), successor in interest to NORWEST BANK BILLINGS, NATIONAL ASSOCIATION.

Reference is made to Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of December 5, 1997 (the "Agreement"), between Borrower and Norwest.

As of the date hereof, the Promissory Note dated as of April 29, 1993 (the "Note"), made by Borrower, payable to the order of Norwest Bank Billings, National Association, in the face amount of \$1,000,000, shall be amended by changing all references therein to the Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of September 1, 1995, between Borrower and Norwest, to be references to the Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of December 5, 1997, between Borrower and Norwest.

EXECUTED as of the date first above written.

GEORESOURCES, INC.

By: /s/ J. P. Vickers
President

NORWEST BANK MONTANA, NATIONAL
ASSOCIATION, successor in interest
to NORWEST BANK BILLINGS, NATIONAL
ASSOCIATION

By: /s/ Doug Kraft
Vice President

ALLONGE

THIS ALLONGE, dated as of December 5, 1997, is by and between GEORESOURCES, INC., a Colorado corporation (herein called "Borrower"), and NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association (herein called "Norwest"), successor in interest to NORWEST BANK BILLINGS, NATIONAL ASSOCIATION.

Reference is made to Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of December 5, 1997 (the "Agreement"), between Borrower and Norwest.

As of the date hereof, the Promissory Note dated as of September 1, 1995 (the "Note"), made by Borrower, payable to the order of Norwest Bank Billings, National Association, in the face amount of \$1,000,000, shall be amended as follows:

1. By changing all references therein to the Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of September 1, 1995, between Borrower and Norwest, to be references to the Amended and Restated Secured Term Loan and Revolving Credit Agreement dated as of December 5, 1997, between Borrower and Norwest; and

2. By changing the maturity date of the Note, as set forth in line 4 of the third paragraph on page 1 of the Note, from "September 5 2002" to "December 5, 2001".

EXECUTED as of the date first above written.

GEORESOURCES, INC.

By: /s/ J. P. Vickers
President

NORWEST BANK MONTANA, NATIONAL
ASSOCIATION, successor in interest

to NORWEST BANK BILLINGS, NATIONAL
ASSOCIATION

By: /s/ Douglas P. Kraft
Vice President

EXHIBIT C

PROMISSORY NOTE

\$3,000,000

December 5, 1997
Billings, Montana

FOR VALUE RECEIVED, GEORESOURCES, INC., a Colorado corporation ("Borrower"), promises to pay to the order of NORWEST BANK MONTANA, NATIONAL ASSOCIATION ("Payee"), the principal sum of \$3,000,000, or such lesser amount as may be borrowed hereunder, together with interest on the outstanding unpaid balance of such principal amount at the rate provided below.

This Note is issued pursuant to, and is subject to the terms and provisions of, the Amended and Restated Secured Term Loan and Revolving Credit Agreement (the "Credit Agreement"), dated as of December 5, 1997, between Borrower and Payee. Except as otherwise defined herein, terms defined in the Credit Agreement shall have the same meanings when used herein.

The outstanding principal amount of this Note shall be payable as provided in the Credit Agreement. The entire outstanding principal balance of this Note shall be due and payable on January 5, 2005 (unless payable sooner pursuant to the terms of the Credit Agreement) and shall bear interest initially at the fluctuating rate, adjustable the day of any change, equal to the annual rate publicly announced or published from time to time by Norwest Bank Minnesota, National Association as its "base" or "prime" rate, which may not be the lowest interest rate charged by Payee (the "Base Rate"), plus three-quarters of one percentage point per annum.

Interest shall accrue daily, shall be payable on the fifth day of each month, commencing January 5, 1998, and at the maturity of this Note.

All payments of principal and interest hereon shall be made at Payee's offices at 175 North 27th Street, Billings, Montana 59101 (or at such other place as Payee shall have designated to Borrower in writing) on the date due in immediately available funds and without set-off or counterclaim or deduction of any kind. All payments received hereunder shall be applied first to costs of collection, second to accrued interest as of the date of payment and third to the outstanding principal balance of this Note.

This Note is secured by, and the holder of this Note is entitled to the benefits of, the documents described in the Credit Agreement (the "Security Documents"). Reference is made to the Security Documents for a description of

the property covered thereby and the rights, remedies and obligations of the holder hereof in respect thereto.

Subject to the expiration of any applicable period of grace provided for in the Credit Agreement, in the event of (a) any default in any payment of the principal of or interest on this Note when due and payable, or (b) any other Event of Default (as defined in the Credit Agreement), then the whole principal sum of this Note plus accrued interest and all other obligations of Borrower to holder, direct or indirect, absolute or contingent, now existing or hereafter arising, shall, at the option of Payee, become immediately due and payable, and any or all of the rights and remedies provided herein and in the Credit Agreement and the Security Documents, as they may be amended, modified or supplemented from time to time may be exercised by Payee.

If Borrower fails to pay any amount due under this Note and Payee has to take any action to collect the amount due or to exercise its rights under the Security Documents, including without limitation retaining attorneys for collection of this Note, or if any suit or proceeding is brought for the recovery of all or any part of or for protection of the indebtedness or to foreclose the Security Documents or to enforce Payee's rights under the Security Documents, then Borrower agrees to pay on demand all reasonable costs and expenses of any such action to collect, suit or proceeding, or any appeal of any such suit or proceeding, incurred by Payee, including without limitation the reasonable fees and disbursements of Payee's attorneys and their staff.

Borrower waives presentment, notice of dishonor and protest, and assents to any extension of time with respect to any payment due under this Note, to any substitution or release of collateral and to the addition or release of any party, except as provided in the Credit Agreement. No waiver of any payment or other right under this Note shall operate as a waiver of any other payment or right.

If any provision in this Note shall be held invalid, illegal or unenforceable in any jurisdiction, the validity, legality or enforceability of any defective provisions shall not be in any way affected or impaired in any other jurisdiction.

No delay or failure of the holder of this Note in the exercise of any right or remedy provided for hereunder shall be deemed a waiver of such right by the holder hereof, and no exercise of any right or remedy shall be deemed a waiver of any other right or remedy that the holder may have.

All notices given hereunder shall be given as provided in the Credit Agreement.

This Note is to be governed by and construed according to the laws of the State of Montana.

GEORESOURCES, INC.

By: _____
J. P. Vickers, President

EXHIBIT D

CERTIFICATE RE RESOLUTIONS AND
ARTICLES OF INCORPORATION AND BYLAWS

The undersigned, Cathy Callahan Kruse, Secretary/Treasurer of GeoResources, Inc. (the "Company"), a Colorado corporation, hereby certifies that:

1. Attached hereto is a true and complete copy of certain Resolutions duly adopted by the Board of Directors of the Company as in effect on the date hereof.

2. Except for any amendments attached hereto, the copies of the Articles of Incorporation and the Bylaws of the Company attached to my certificate dated September 1, 1995 are true and complete copies of the Articles of Incorporation and the Bylaws of the Company as in effect on the date hereof.

3. The following persons are duly authorized to execute Loan Documents (as defined in the Amended and Restated Secured Term Loan and Revolving Credit Agreement (the "Credit Agreement"), dated as of December 5, 1997, between the Company and Norwest Bank Montana, National Association) on behalf of the Company:

Name and
Capacity

Specimen
Signature

J. P. Vickers
President

J. P. Vickers

Executed by the undersigned as of the 5th day of December, 1997.

Cathy Callahan Kruse

EXHIBIT E

BORROWING BASE CALCULATION

GEORESOURCES, INC.

Dated _____

1. Present Worth (PW) of Proved Developed

Producing (PDP) Oil and Gas Properties
Discounted At _____.

2.	Less:	a) PW of PDP Properties Not Mortgaged to Norwest.	-	_____
		b) PW of The Next 12 Months of Production (Subtracted Only if Borrower Has A Revolving Line Related To Oil and Gas).	-	_____
		c) Other Ineligible Properties	-	_____
3.	Net PW of PDP		=	_____
4.	Borrowing Base Factor		x	.50
			=	_____
5.	Plus:	a) Anticipated Principal Amortization of Oil and Gas Related Term Debt In The Next 12 Months (Added Only If A Dollar Amount Has Been Subtracted in 2b).	+	_____
6.	Borrowing Base		=	_____
7.	Less:	Principal Balance of all Revolving and Term Debt Related To Oil and Gas	-	_____
8.	Margin (Deficit)		=	_____

CERTIFICATE RE RESOLUTIONS AND
ARTICLES OF INCORPORATION AND BYLAWS

The undersigned, Cathy Callahan Kruse, Secretary/Treasurer of GeoResources, Inc. (the "Company"), a Colorado corporation, hereby certifies that:

1. Attached hereto is a true and complete copy of certain Resolutions duly adopted by the Board of Directors of the Company as in effect on the date hereof.

2. Except for any amendments attached hereto, the copies of the Articles of Incorporation and the Bylaws of the Company attached to my certificate dated September 1, 1995 are true and complete copies of the Articles of Incorporation and the Bylaws of the Company as in effect on the

date hereof.

3. The following persons are duly authorized to execute Loan Documents (as defined in the Amended and Restated Secured Term Loan and Revolving Credit Agreement (the "Credit Agreement"), dated as of December 5, 1997, between the Company and Norwest Bank Montana, National Association) on behalf of the Company:

Name and Capacity	Specimen Signature
J. P. Vickers President	/s/ J. P. Vickers J. P. Vickers President

Executed by the undersigned as of the 5th day of December, 1997.

/s/ Cathy Callahan Kruse
Cathy Callahan Kruse
Sec./Treas

RESOLVED, that the officers of the Corporation are hereby authorized to undertake all actions necessary to establish a \$3,000,000 revolving line-of-credit with Norwest Bank Montana, under essentially the same terms as the Company's 1995 Revolving Credit Agreement.

FURTHER RESOLVED, that during the term of this line-of-credit, the management of the Company is authorized to make individual Williston Basin oil and gas acquisitions or perform drilling projects that do not require more than \$250,000 of borrowings from this line-of-credit for each acquisition or drilling project.

SECOND AMENDMENT OF AND ADDENDUM TO MORTGAGE, SECURITY AGREEMENT,
ASSIGNMENT OF PRODUCTION AND FINANCING STATEMENT
AND MORTGAGE - COLLATERAL REAL ESTATE MORTGAGE

THIS SECOND AMENDMENT OF AND ADDENDUM TO MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF PRODUCTION AND FINANCING STATEMENT AND MORTGAGE - COLLATERAL REAL ESTATE MORTGAGE (this "Instrument"), dated as of December 5, 1997, is between GEORESOURCES, INC., a Colorado corporation (Federal Tax I.D. No. 84-0505444) ("Mortgagor"), with an address at 1407 West Dakota Parkway, Suite 1B, Williston, North Dakota 58801 (residence: Williams County, North Dakota), and NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association ("Lender"), successor in interest to NORWEST BANK BILLINGS, NATIONAL ASSOCIATION, with an address at 175 North 27th Street, Billings, Montana 59117.

RECITALS

A. Mortgagor executed and delivered to Lender a Mortgage, Security

Agreement, Assignment of Production and Financing Statement dated as of April 29, 1993 (the "Original Mortgage"), the terms and provisions of which and the description of the real and personal property covered by which are hereby incorporated herein by this reference. The Original Mortgage was filed and recorded, among other places, as follows:

State	County	Filing Date	Recording Data	
			Book	Page
Montana	Richland	05/10/93	B-140 Mort.	871
North Dakota	Bottineau	05/10/93	246 Mtges.	501
North Dakota	McKenzie	05/10/93	Doc. #316744	
North Dakota	Renville	05/13/93	155 Mtgs.	261
North Dakota	Williams	05/12/93	Doc. #549527	

B. Mortgagor and Lender executed and delivered a First Amendment of Mortgage, Security Agreement, Assignment of Production and Financing Statement dated as of September 1, 1995 (the "First Amendment"), the terms and provisions of which and the description of the real and personal property covered by which are hereby incorporated herein by this reference. The First Amendment was filed and recorded as follows:

State	County	Filing Date	Recording Data	
			Book	Page
Montana	Richland	11/27/95	B-147 Mort.	993
North Dakota	Bottineau	11/27/95	256 Mtgs.	158
North Dakota	McKenzie	11/27/95	Doc. #323766	
North Dakota	Renville	11/28/95	158 Mtgs.	478
North Dakota	Williams	11/27/95	Doc. #562428	

C. Unless otherwise defined herein, terms defined in the Original Mortgage, as amended by the First Amendment (the "Mortgage"), shall have the same meanings when used herein. The counterparts hereof to be recorded in the counties listed in Recital A above shall have attached thereto as Schedule I a description of the land covered by the Mortgage.

D. In accordance with North Dakota Century Code, Section 35-03-17, Lender and Mortgagor wish to file this Instrument in order to give notice that the Mortgage and the liens, security interests and other rights granted pursuant thereto remain in full force and effect.

E. The parties wish to amend the Mortgage as described

EXTENSION

In accordance with North Dakota Century Code, Section 35-03-17, Lender and Mortgagor hereby give notice that the Mortgage and the liens, security interests and other rights granted pursuant thereto remain in full force and

effect. The Mortgage and the liens, security interests and other rights granted pursuant thereto are hereby ratified and confirmed.

AMENDMENT

IN CONSIDERATION of the sum of ten dollars (\$10.00) in hand paid by Lender to Mortgagor and of the mutual promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the Mortgage shall be amended by substituting the following for Clauses (A), (B) and (C) of the second paragraph on the page numbered 3 of the Mortgage:

(A) the payment of the Promissory Note dated September 1, 1995, executed by Mortgagor, payable to the order of Mortgagee, in the face amount of \$1,000,000, as now in effect or as hereafter amended, extended or replaced (the "1995 Note"), having a maturity date of December 5, 2001, with interest at an annual rate equal to the sum of the fluctuating annual rate announced from time to time by Norwest Bank Minnesota, National Association ("NBM") as its prime or base rate (currently, 8.5 percent per annum), which may not be the lowest interest rate charged by NBM (the "Base Rate") plus one percentage point; (B) the payment of the Promissory Note dated April 29, 1993, executed by Mortgagor, payable to the order of Mortgagee, in the face amount of \$1,000,000, as now in effect or as hereafter amended, extended or replaced (the "1993 Note"), having a maturity date of September 5, 1999, with interest at an annual rate equal to the sum of the Base Rate plus one percentage point; and (C) the payment of the Promissory Note dated December 5, 1997, executed by Mortgagor, payable to the order of Mortgagee, in the face amount of \$3,000,000, as now in effect or as hereafter amended, extended or replaced (the "1997 Note"), having a maturity date of January 5, 2005, with interest at an annual rate equal to the sum of the Base Rate plus three-quarters of one percentage point (the 1995 Note, the 1993 Note and the 1997 Note collectively referred to herein as the "Notes");

GRANT

Mortgagor hereby grants, bargains, sells, assigns, transfers, pledges, mortgages and conveys, and grants a security interest in, the Mortgaged Properties to Lender, WITH POWER OF SALE; TO HAVE AND TO HOLD the Mortgaged Properties to Lender and its successors and assigns forever, subject to all of the terms, conditions, covenants and agreements set forth in the Mortgage, as amended hereby, for the security and benefit of Lender and its successors and assigns as holder of any and all notes and other obligations secured by the Mortgage, as amended hereby.

MISCELLANEOUS

This Instrument shall bind and inure to the benefit of the respective

successors and assigns of Mortgagor and Lender, including without limitation any and all other banks, lending institutions and parties which may participate in the indebtedness evidenced by the Indebtedness or any of it. Notwithstanding any other provision contained herein, if any property interest granted by this Instrument does not vest on the execution and delivery of this Instrument, it shall vest, if at all, no later than 20 years after the execution and delivery of this Instrument. Mortgagor hereby ratifies, confirms and adopts the Mortgage, as amended hereby.

EXECUTED as of the date first above written.

ATTEST:

GEORESOURCES, INC.

/s/ Cathy Kruse,
Cathy Kruse
Secretary

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

(SEAL)

NORWEST BANK MONTANA, NATIONAL
ASSOCIATION, successor in interest
to NORWEST BANK BILLINGS, NATIONAL
ASSOCIATION

ATTEST:

/s/ STACY ELLAND
STACY ELLAND
BSR

By: /s/ Doug Kraft
Doug Kraft
Vice President

(SEAL)

STATE OF North Dakota)
) ss.
COUNTY OF Williams)

(Montana)

On this day before me, the undersigned notary public, personally appeared J. P. Vickers, known to me to be the President of GEORESOURCES, INC., a Colorado corporation, the corporation that executed the within instrument, and acknowledged to me that such corporation executed the same. Witness my hand and official seal as of December __, 1997.

(North Dakota)

The foregoing instrument was acknowledged before me this 23 day of December, 1997, by J. P. Vickers, as President of GEORESOURCES, INC., a Colorado corporation, on behalf of said corporation. Witness my hand and official seal.

/s/ Mary B. Mahar
Notary Public
Residing in: Williston, ND

My commission expires: September 5, 2003

STATE OF Montana)
) ss.
COUNTY OF Yellowstone)

(Montana)

On this day before me, the undersigned notary public, personally appeared Doug Kraft, known to me to be the Vice President of NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association, successor in interest to NORWEST BANK BILLINGS, NATIONAL ASSOCIATION, the national banking association that executed the within instrument, and acknowledged to me that such national banking association executed the same. Witness my hand and official seal as of December 24, 1997.

(North Dakota)

The foregoing instrument was acknowledged before me this day of December, 1997, by Doug Kraft, Vice President of NORWEST BANK MONTANA, NATIONAL ASSOCIATION, a national banking association, successor in interest to NORWEST BANK BILLINGS, NATIONAL ASSOCIATION, on behalf of said national banking association. Witness my hand and official seal.

/s/ Shirley A. Esser
Notary Public
Residing in: Billings, MT

My commission expires: July 30, 2000

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