



Transcript of GeoResources, Inc. Third Quarter 2011 Earnings November 8, 2011

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Participants

Frank A. Lodzinski— President & CEO, GeoResources, Inc.
Cathy Kruse— Corporate Secretary & Williston Business Officer Manager,
GeoResources, Inc
Howard Ehler—Chief Financial Officer, GeoResources, Inc.
Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Participants

Scott Hennel—RBC
Tim Rezvan—Sterne Agee
Jeff Hayden—Rodman & Renshaw
Sue Lynn Payne from Robert W. Baird
William Butler—Stevens, Inc.
Welles Fitzpatrick—Johnson Rice
Jason Wangler—SunTrust

Presentation

Operator

Greetings, and welcome to the GeoResources Third Quarter 2011 Earnings Call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Frank A. Lodzinski, President and CEO for GeoResources, Inc. Thank you, Mr. Lodzinski, you may begin.

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

Good morning, all. First we'll let Kathy Cruise read our obvious forward-looking statement stuff. We have with us today, Robert Anderson, myself, and Howard Ehler that will do the majority of the talking. Kathy, I'll turn it over to you and then I'll come back.

Cathy Kruse—Corporate Secretary & Williston Business Officer Manager, GeoResources, Inc.

Good morning, and thank you for participating in our Third Quarter 2011 Conference Call. Our earnings release was issued last night and it's posted on our website at www.georesourcesinc.com.

Before we get started, I need to disclose that the call today will include forward-looking statements as defined by the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as, "may," "will," "expect," "anticipate," "estimate," "continue," or comparable



words. All statements other than statements of historical facts, which address activities that we expect or anticipate will or may occur in the future, are forward-looking statements.

Listeners are strongly encouraged to read our 10-K for the year ended December 31, 2010, as well as all other SEC reports of the company, and any and all documents filed with the SEC in their entirety for more details and information about GeoResources and for additional cautionary language regarding forward-looking statements. I will now turn the call over to Mr. Lodzinski.

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

Thank you, Cathy. For you listeners, I'm suffering from a bit of a cold so if I have some issues here we'll turn it back to Robert who will pick up for me, but excuse me for that.

I'm going to make a few brief comments. Afterwards, Howard and Robert will review our financial situation and provide some operating comments.

I'm pleased to report that we've had a great quarter. This is our best quarter since gaining control of GeoResources a little more than four and a half years ago. During that timeframe we've been consistently profitable and the third quarter of 2011 exceeds all prior quarters under this management team in virtually every metric.

During this quarter, I believe, we've demonstrated that we have rebounded from weather delays, which we suffered from in the first half of the year, along with several others. And we've posted strong sequential production growth versus the second quarter. Howard will talk a little bit more about that in a moment.

We are now running two rigs in our Bakken play and one rig in our Eagle Ford plane, and expect our second Eagle Ford rig to arrive within a couple of weeks. We're clearly in the development mode on both of these plays, which should continue to drive production and earnings growth going forward.

We've learned quite a bit from our early drilling successes in these plays, and we are now focused on developing these assets in the most economic manner possible. For those of you that know us, you know that we have a strong operations track record and over the courses of our careers have demonstrated the ability to drive down costs effectively.

Our current efforts in both plays are concentrated along these lines and also in maximizing reserve recoveries. We're beginning to implement pad drilling, back-to-back sequential frac jobs, hundred percent sliding sleeve completions where appropriate or feasible, and other initiatives and logistical and other initiatives to improve efficiencies and reduce costs. Robert will talk a little bit about that in a moment.

At present, we have some 25,000 acres in the Eagle Ford and 46,00 net acres in the Bakken. We're continuing to pursue new lease opportunities in both areas, and we're also reviewing other opportunities as evidenced by a recent \$11 million purchase of

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Austin Chalk producing properties in the third quarter. This is a very cost effective bolt on to our existing producing operations. We'll continue to pursue acquisition or merger opportunities in and around our core areas, which are indented to be value accretive to our shareholders.

I'd like to remind the market that we have a very, very strong liquidity position. Our Pro Forma Liquidity is about \$216 million, and we have considerable cash flow and net income. Therefore, we clearly have no issues in terms of proceeding with our capital budget, and perhaps even pursuing aggressively other opportunities on the M&A front and on the asset front. I'll now turn the call over to Howard.

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Thank you, Frank. Hello, everyone. I'm going to provide a few brief comments on our third quarter earnings and will refer you to our press release and our 10-Q for further details of financial results. Both of these were filed in the last 24 hours.

As Frank mentioned, we posted new highs in the quarter in relation to production, revenue, EBITDAX, and earnings. Crude oil production was 331,000 barrels for the quarter or 3,602 barrels per day. This rate is 20% higher than our third quarter 2010 rate, and 25% higher than our second quarter 2011 rate. We expect oil production to continue to accelerate into 2012 as we ramp up our Eagle Ford and Bakken drilling activities.

Our natural gas production was 1.07 BCF for the quarter, or approximately 11,700 Mcf per day, which is consistent with the third quarter of 2010 and 7% higher than the second quarter of 2011. The increase in gas production versus the second quarter of 2011 is primarily the result of gas production associated with recent drilling success in both the Bakken and the Eagle Ford, as well as our West Cannon well in the Austin Chalk.

On a combined basis, we had daily production rate of 5,545 barrels boe/d for the quarter. This combined rate was 12% higher than the third quarter of 2010 and 17% higher than the second quarter of 2011. And was primarily driven by increased drilling and completion activity in the Bakken and the Eagle Ford.

Importantly, the oil component of our production rate increased to 65% in the quarter versus the 61% level in both the third quarter of 2010 and the second quarter of 2011. After hedge settlements, our average realized prices for the quarter were \$87.67 per barrel of oil and \$5.76 per Mcf of natural gas.

For the whole company, we realized oil prices before hedge settlements that were \$0.23 higher than NYMEX prices for the quarter. For our Northern operations, our differential was \$3.67 per barrel below NYMEX, while we actually experienced a positive differential of \$4.69 per barrel in our Southern region.

Reported net income was \$9.4 million, while adjusted net income after adjusting for unrealized derivative gains and other items in the quarter was \$9.2 million. Adjust net income was 30% higher than the third quarter of 2010 and 17% higher than the second quarter of 2011.

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And finally, adjusted EBITDAX was \$24.1 million for the third quarter, which was 39% higher than the third quarter of 2010 and 20% higher than the second quarter of 2011.

Finally, last month we received a commitment from Wells Fargo to amend our current senior revolving credit facility. Upon closing we expect a new five-year revolver with an initial borrowing base of \$180 million. This represents a 24% increase in our borrowing base, and our commitment fees and interest rates will be reduced.

Full terms of this new credit facility will be disclosed after the facility is closed. Please refer to our 10-Q, our earnings release, our recent 10-K for additional information.

With that, I will turn it over to Robert for ... operating activity.

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Thanks, Howard. I'll provide a brief overview of our operational results for the third quarter, but as usual we'll plan to provide a more complete operations update near the end of the year.

As Frank mentioned, we now hold approximately 25,000 net acres in our operated Eagle Ford project area. We have three wells online and producing with two additional wells that have been drilled and are awaiting frac right now. Our drilling rig is on its second well from a pad location in our Arnim unit in Fayette County, Texas, and a second contracted rig should be on location later this month and we will begin drilling our Newtonville unit in Gonzales County.

We plan on fracing wells consecutively beginning in December, and hope to have three additional wells producing by early 2012. With our current activity, we expect to spud between eight and nine total wells in our Eagle Ford project area in 2011.

We are now using pad drilling and back-to-back completions to maximize cost efficiencies in the Eagle Ford. These operating practices will result in new production coming online in batches. Therefore, quarterly production results may not be linear as we frac and add multiple new wells from these pad locations. Given this batch completion strategy, we don't expect to have production growth from our Eagle Ford drilling activities in the fourth quarter of 2011, but should realize increased production in the first quarter of 2012.

We are working diligently to reduce costs and maximize reserve recoveries in a variety of different manners in the Eagle Ford. On the cost front, we have recently started drilling some of our wells without intermediate casing. This, along with pad drilling and additional drilling efficiencies, has reduced our drilling days and is saving us money. We are also refining our completion procedures, including optimizing the number of frac stages, along with the prop and type, size, and volume in order to improve rates and ultimate reserves.

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While we have conservatively budgeted a drilling and completion cost of \$9 million per well in 2012, we will work to reduce cost to \$8 million, which we believe is achievable under current conditions.

Turning to the Bakken, we now have approximately 46,000 net acres leased throughout the play. In our operative Williams County, North Dakota area, we have successfully completed our first six wells and we currently have two rigs running.

Our most recently completed well, the Rasmussen 1-25-36H has averaged 374 barrels of oil equivalent per day over its first 14 days of production. In eastern Montana, we recently completed fracing the Olson 1-21-16H well. This well should be online within the next week or so, and we'll have some results at year-end.

We expect to spud a total of 10 or 11 operated Bakken wells in 2011, and this excludes the initial three wells in this project that were spudded late in 2010.

Similar to the Eagle Ford, we continue to refine our drilling and completion practices to improve cost efficiencies in the Bakken. We have started implementing pad drilling and back-to-back completions in this program. Further, many of our future completions will be 100% sliding sleeve, as opposed to the plug-and-perf method, which will save us time and money. We are also planning to use sand in our fracs going forward, which will reduce our prop-in costs.

We believe these refinements in drilling and completion methods could reduce our drilling and completion costs from the currently budgeted \$8.5 million for 2012 drilling to approximately \$7.5 million. As an example, we've reduced our drilling days on recent wells to 19 days compared to the more than 30 days for earlier wells in our program. This has saved us approximately \$1 million in our drilling costs.

Our non-operative Bakken program really picked up steam in the third quarter as our primary operator, Slawson Exploration, had completed 15 wells since May. Slawson is currently running four to five rigs on our acreage position, and there are currently five or six wells that are in different stages of completion with an additional eight to nine wells waiting to be frac'd.

We estimate that three to five gross wells will be completed per month in our non-operative program for the remainder of 2011 and into 2012 with an average working interest between 6% and 10% in most wells.

As a brief update on our capital expenditures, we have spent \$85 million through September 30, 2011. Of this money, approximately \$22 million was spent on new acreage so far this year, comprised of \$13 million in the Eagle Ford, \$8 million in the Bakken, and about \$1 million elsewhere.

We've spend about \$44 million on Bakken drilling so far this year, with only about \$1 million spent on Eagle Ford drilling, given the drilling carry with our partner, and then \$7 million on drilling in other areas.

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As Frank mentioned, we recently closed an \$11 million acquisition in third quarter of producing Austin Chalk properties. We still expect our total capital for 2011 to remain around \$120 million.

As indicated in the operations press release we put out on October 3, 2011, we expect our 2012 total capital expenditures to range between \$188 million and \$223 million, depending on the number of rigs we run and the cost efficiencies we are able to achieve in both the Bakken and the Eagle Ford.

If we are able to achieve the drilling and completion cost savings we are seeking and maintain the reduced drilling times we've already experienced, then our 2012 capital expenditures will likely be at the lower end of this range. Again, we believe the estimated well costs in our 2012 capital budget are conservative, and we are working hard to achieve meaningful cost reductions. With that, I'll turn it back over to Frank to wrap up.

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

Okay, thank you, Robert. We advise in our press releases and on this call where we budgeted our well costs and what we're targeting, but I'd just like to tell you that our goals are to achieve the lowest possible well cost, and we're working hard to even get our numbers below the numbers that we've specified in these releases. We're very pleased with the positive operational and financial performance that we've demonstrated, but you know this is the early innings of this ballgame.

The size of our acreage positions give us a multi-year drilling inventory that has the potential to create significant value for our shareholders, which we believe is not reflected in our current share prices. In addition, we've always been rather resourceful in generating incremental opportunities while keeping our eyes clearly focused on the ball. Our job is to ensure that we deliver value to our shareholders, and I'll remind you that the management team and board are in fact large shareholders in this company.

In closing, I want to comment just a bit further on our capital structure and liquidity. With our existing cash, significant cash flow, the new undrawn credit facility, we are in very good shape to proceed. Having said that, given our liquidity position and the fact that over the next couple of years we have very minimal lease extension and lease obligations, we're keeping our eyes open to effectively capture our acreage, enhance our returns, and also look for new opportunities within our focus areas. So we will be pursuing M&A opportunities and asset acquisition opportunities.

That really concludes all of our remarks and I'll be happy to turn it over to the operator for questions.

Operator

Thank you, sir. We will now be conducting a question and answer session. One moment please while we pause for questions. Our first question is coming from Scott Hannel from RBC. Please proceed with your question.

Scott Hannel—RBC

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Thanks. Good morning. On your Bakken activity, you indicated that you're going to be going to sliding sleeve. Can you all talk about if you've tested sort of the well performance of sliding sleeves versus plug-and-perf and what your perspective is there?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Scott, this is Robert. And if you recall on some of our first wells, we did our very first 640 and then or 1280s we did either hybrids or all sliding sleeve. We just felt that in this environment, both commodity prices and cost structure, that in order to maximize our returns that the sliding sleeve was the best method, and I don't have any comparative data yet on the way we're fracing wells since the last wells we brought on in all plug-and-perf. Give us another six months and we'll be able to answer that better.

Scott Hennel—RBC

Okay. And so it sounds like, and correct me if I'm wrong, initially you're going to do it as more for efficiency and bringing down the cost when you're looking at the overall economic?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

That's correct. And especially in the wintertime as it gets difficult to keep things going. As efficient as possible, the sliding sleeves will help us tremendously in the wintertime.

Scott Hennel—RBC

Okay, appreciate that. And on the Rasmussen well, that had a nice initial production rate and it seems like it's come off a bit more strongly than some of your initial wells that had these lower initial productivities. Can you kind of speak to what might be different there?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

No, we're still flowing that well. It's not on pump yet. So I can probably give you some more information once we get it on pump and it kind of stabilizes, but our flow-back method is to not pull these wells hard and flow them until it's appropriate to put them on pump. And we should be putting that well on pump within the month.

Scott Hennel—RBC

Okay. And finally, the Austin Chalk wells that were non-operated, it looks like they are pretty encouraging. Can you remind me, in that area, what is your ability to operate? And if that's successful, how big of a drilling program could you have out there in 2012?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Well we can operate the majority of our Fayette County acreage. This just happened to be on the edge of our Fayette County acreage, and we had a small interest in a unit

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that the other operator put together. So from a control standpoint, we have a pretty large interest and controlling position.

We're doing some more science and geologic mapping and indication of how big is this area, and we see that the Austin Chalk has produced historically across the majority of our block of acreage in Fayette County. We're just trying to identify where there are opportunities to drill that won't be depleted, or if we go into the upper portion of the Austin Chalk where we see fracture indications. So we don't have a full year's worth of drilling planned or anything like that, but we definitely have one or two wells.

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

This is Frank. I'm not an engineer or a geologist so I'll say—Robert, correct me if I go off on a wrong tangent here—but across our entire 24,000-25,000 acres, the chalk exists across our entire 24,000 acres. It's right above the Eagle Ford. And looking at this area, we always thought the chalk was perspective, as well as other horizons, both deeper horizons in particular, so we were pretty pleased to see another operator drill a chalk well, that Cherry well on our acreage.

And then we immediately chose to participate with them, and we're just mapping the whole thing. We really don't have an idea of the size because some of the areas may be naturally fractured and some of the areas may be less naturally fractured, but we do think we're going to be able to put a drilling program across there. And there'll be more information coming out as we proceed.

Scott Hennel—RBC

Understood. I appreciate it. Thank you, guys.

Operator

Thank you. Our next question comes from Tim Rezvan from Sterne Agee. Please proceed with your question.

Tim Rezvan—Sterne Agee

Good morning, guys. I was hoping I could maybe get you to provide a little more color. You talked about the 2012 CapEx range, the \$188 million to \$223 million and of possible ramping up to four rigs. It seemed like the language in the third quarter call kind of left a little wiggle room, and kind of given the problems that smaller operators had in the Bakken, have your thoughts changed on getting up to four rigs in that play?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

I'm not sure I'd categorize it as "wiggle room," but I'm not averse to using that terminology. From a philosophical standpoint, being large shareholders, using your term of "wiggle room," we always take a look at where we can spend our money the most efficient way and the best return to shareholders.

So the only thing that's really changed in our plans are these significant improvements that we've had in drilling days, going from 31 down to 19, and maybe improving further. Maybe, just maybe, we can capture our acreage and achieve the results without having to go to a fourth rig. And when you work that into your economics, there may be a benefit there.

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So generally our plans have not changed. Generally we're looking for other areas in the Bakken. And have nothing to point at right now, but have some discussions going with people that are just normal ongoing business. And we're not ready to abandon that yet, but I'm kind of babbling at you now. We could end up with three rigs and still accomplish the same thing that we need to accomplish.

What's difficult is I've been asked the question a lot about when do you stop drilling and so forth. Once you get the frame running you can't stop drilling so we're committed to proceed with this program and we're committed to doing what we said. If we can drive the efficiencies down, maybe we can accomplish that with three versus four rigs.

Tim Rezvan—Sterne Agee

Okay. Thanks for that color. And then switching gears a bit, as you talk about kind of the M&A opportunities, two questions related to that. First of all, would you be looking at possibly getting into new plays or do you think there are bolt-on opportunities kind of in the Eagle Ford and the Bakken?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

We have—I need to babble just a bit about our strategy. If you read our business strategy and see what we're doing, we intend to continue to expand in our core areas. And over time, we intend to divest of some of our conventional properties that are fueling a lot of cash flow for us right now. So that's our general overall goal.

So we're going to stay just focused where we are and consider bolt-ons, consider asset acquisitions, consider M&A opportunities, and we will likely not go to any other place unless we could do it in conjunction with a corporate merger that would give us some scale. We're not going to go off to the Marcellus and acquire 5,000 or 6,000 or 8,000 acres or to some other area along those lines. But if we could put things together with a company that had some scale and a philosophy similar to ours with people that had vested interest or technically capable, we would not be averse to that.

Tim Rezvan—Sterne Agee

Okay, thank you. And then a final one kind of related to that, any update on where you stand with the Gulf Coast asset sales you've discussed over the last few months? Is there any timetable or any news on that?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

No, we don't have a specific timetable. We only really told that to the market that if we choose to sell off some assets down the road that it wouldn't be a big surprise. Generally speaking, we'll start this sometime in 2012 and this will occur over the course of 2012 and '13.

We don't have to sell any assets to pursue our capital plans or anything else we're doing. So we'll just take advantage of prices and opportunities in divestitures as those—you know, the market pops a little bit, we might put something out there on the market. But that's where we're coming from. So I can't give you any color on that

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particularly. In our internal budgeting we have not rolled in divestitures, but this is something that we're committed to.

Tim Rezvan—Sterne Agee

Okay. Thank you very much.

Operator

Thank you. Our next question is coming from Jeff Hayden from Rodman & Renshaw. Please proceed with your question.

Jeff Hayden—Rodman & Renshaw

Good morning, guys. Frank or Robert, I was wondering if you guys could give a little more color on the Austin Chalk acquisition. You said it was producing properties. How much production did that add? How much reserves? What was kind of the timing of the addition?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Jeff, we closed it August. It was effective back to July. Production net is about 240 boe/d, and I'll leave the reserves until after we get third party engineered reserves at year-end. But you can probably back into on some metrics.

Jeff Hayden—Rodman & Renshaw

Okay, great. I appreciate that color. Looking elsewhere, Robert, you talked about if you guys are able to achieve the cost savings you're going for, you could be at the low end of the budget. What sort of timing does that imply for adding additional rigs in the Eagle Ford and the Bakken next year?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Well as Frank mentioned, our efficiencies are helping us out to where we may not need to have four rigs running in the Bakken, for instance, to save all of our acreage or hold all of our acreage. So we're committed to looking for a third rig and we're working on a contract right now, and that's in the Bakken. Timing for the third rig in the Eagle Ford is still sometime end of first, middle of second quarter of '12 for the Eagle Ford. We haven't started doing that yet.

Jeff Hayden—Rodman & Renshaw

Okay. Well let me ask it a little differently then. How many wells would you hope to get drilled in each play next year?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

I don't think our numbers have changed because of our efficiencies with drilling. If we run three rigs, we can still get at the low end of our 21 or so wells in the Eagle Ford, I mean the Bakken, and about 18 wells in the Eagle Ford, even running—yes, that's about right. I don't think it'll change.

Jeff Hayden—Rodman & Renshaw

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And then one last one, it looks like LOE crept up a little bit in the quarter. Just wondering how we could kind of be thinking about that going forward. Should we keep it at the Q3 rates or are we expecting it to come in a little bit from here going forward?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Let's review, just briefly, what we think is happening to our LOE in the second quarter and the third quarter, and then I'll let you kind of make your assumptions. But I think there have been three or four items that have caused the LOE per boe to go up a little bit.

Number one, if you'll recall in the second quarter, much of the Williston Basin was still under water. So our operating expenses increased just trying to keep wells on and so forth. And then as things dried up towards the end of the second quarter and the third quarter, we had a lot of well repairs to do because a lot of the wells were simply under water.

Also up there, as many others are doing, we're suffering from a high cost of saltwater disposal. And in our New Home project in particular, we are doing things to remedy that.

Because we are in process, we've contracted—Robert, help me if I go astray here again, Robert—we have contracted to drill and complete and install two commercial saltwater disposal facilities within our new home project area where we will have a majority ownership in those facilities, and it will be managed by a third party who is a saltwater disposal operator that will also have an equity interest and so forth. So we'll be able to alleviate a lot of the high cost of saltwater disposal where trucks are frankly just waiting in line for six to eight hours or so just to dump their loads.

The other things that we're doing there in New Home is that we have entered into contracts with the Banner and Highland to bring in gas gathering and oil gathering lines within our project area, which is going to have a positive impact on LOE.

Thirdly, in some of our southern properties where we have been deferring some of the maintenance on some of our southern properties, we did some of that in the summer months here and so forth.

So \$13.36 is probably not a good number going forward. \$11.91, which was the fourth quarter of last year, and \$12.00, which was the first quarter of this year, is probably more representative. So I'd kind of scale it down a little bit over time, I guess.

Jeff Hayden—Rodman & Renshaw

Okay. I appreciate the color.

Operator

Thank you. Our next question is coming from Sue Lynn Payne from Robert W. Baird. Please proceed with your question.

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Sue Lynn Payne—Robert W. Baird

Good morning, gentlemen. A quick follow-up question to your drilling base on 30 to 19 base I was wondering, are you doing anything different? Is this purely efficiency? Are you still targeting the same leveling?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

It's all the same Sue Lynn. We are just getting more efficient as we bring these rigs up to our operating standards, so to speak, and just good operating practices. So nothing's changed in lateral length or anything technically related to drilling the wells.

Sue Lynn Payne—Robert W. Baird

Okay, that's great. And then second question is in terms of your price realization, Howard mentioned that you were experiencing positive oil price differential in the Southern region. Do you anticipate this to continue? How should we think about your differentials going forward for both oil and gas?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

We're going to flip a coin to see who gets to answer that. So hold on a minute. You have to—a part of that you have to sort of bet or base your decision on what happens between WTI and LLFs or ... pricing, and we are not very good with our crystal ball. I understand that that number has shrunk a little bit, the differential between those two, so I think we're still going to be in a positive realm over WTI on our Southern properties on oil pricing, but I can't help you out there much more than that.

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

I think you're going to see the differentials expand in the Bakken particularly during the winter months, and I think that that 367 is going to go higher. So I mean just from my internal planning, I'm not, you know—I always forecast a differential under on a company-wide basis, but maybe we should open that up to all you analysts out there that study the markets and tell us what we should be using.

Sue Lynn Payne—Robert W. Baird

Well let me ask you another way. So how much of oil production is—what percentage of your oil production is in the South and in the North so that we can make a better—

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

I think if you take a look at a table that we have here in the press release and maybe we can—so that's on a BOE basis so it's skewed a little bit—

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

I'll tell you what, Sue Lynn, instead of us looking for a bunch of papers here we'll get back to you on that just in general terms of maybe the ratio between Northern and Southern percentage of oil.

Sue Lynn Payne—Robert W. Baird

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Okay. No, that sounds good. And last question is ... color on the lifting cost. I was wondering if you could also talk about G&A , what your anticipation is going forward?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Hold on just a second. I'm hung up on the last question. If you take a look, and he'll get back to you, but if you take a look in our press release and factor in the fact that virtually all of our gas production is in the Southern district, the majority of it, 90% of the gas production is down here, you can almost kind of back into those ratios yourself, Sue Lynn, but Robert and Frank will get back to you.

On a G&A—was that your—it's probably, Robert, 50/50 on the oil? Okay, let us quit guessing—it's 50/50 he says. Okay?

Sue Lynn Payne—Robert W. Baird

Okay, great.

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

I'm glad we got done with that question because I have other work for you guys to do this afternoon. So there you have it. G&A?

Sue Lynn Payne—Robert W. Baird

Yes. Can you talk about the trends? How should we think about the terms going forward, especially giving ... 2012 your production guidances up 30%?

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Right. I think our—our G&A will go up. It'll go up as a result of continuing to attract additional geologists, engineers, and administrative staff so that we can be most cost efficient as possible. We've always tried to stay within about 10% of our revenue line, and perhaps below that. And probably all the guidance I can give you right now.

We'll probably add a half a dozen new staff members over the course of the next year, plus our compensation is tending to move up so we can retain the talented people that we have.

Sue Lynn Payne—Robert W. Baird

Okay, sounds good. Thank you very much.

Operator

Thank you. Our next question is coming from William Butler from Stephens, Inc. Please proceed with your question.

William Butler—Stevens, Inc.

Good morning. Can you talk a little bit more on the saltwater disposal you're putting in on the New Hope? Is that budgeted? What's the timing on that? What's the budget for it? And is it in 2011 or '12 CapEx?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

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William, it'll all be done in 2012. We're doing some front-end work right now, but we won't get it done this year. From a capital standpoint, the net to us is under \$3 million, two wells, and I won't go any further than that at this point until we get some AFE nailed down, but that's kind of where we're at.

William Butler—Stevens, Inc.

Okay, thanks. Can you be a little more specific, let's start maybe with the Bakken, when you're talking about perfection frac stages and all? What's the number, lateral length, frac stage that you're really targeting there?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

We're targeting somewhere between 32 and 36 stages per well on a go forward basis in the Bakken. And it's varied based on how the well is drilled and what we see while we're drilling it. And if we see a zone that we don't like while we're drilling it, we may not frac it or we may have a shorter interval across it or a longer and combine it with another interval, and that's why that number ranges. The lateral length of our wells is still about the same, 97 to 100 feet to 10,000 feet.

And then it will depend whether we go all sliding sleeves, which is our intention during the winter to expedite or frac timing there. And then maybe when the weather eases up we will try some more hybrids and do some comparisons in certain areas in the field, one well versus another right next to each other or close so we can get a production comparison and see if we can see any differences.

Does that help you?

William Butler—Stevens, Inc.

It does. And then you all had experimented, I think, with some ceramics but I think it sounds like you've found that that's just not working—is that something you'd revisit if the pricing comes back or you just found the efficacy versus sand's not there.

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

We didn't see any positive results over using just sand or resin-coated sand, first of all, and then we also did some core analysis work to suggest that where we are in the Bakken, specifically it's not needed to have ceramics.

William Butler—Stevens, Inc.

Okay. And then can you answer the same question in the Eagle Ford too?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

We're still experimenting with the number of stages, and since we haven't frac'd anything since our Black Jack where we did 16 stages, we've got 15 designs, but that may change as we do some more evaluation work. We've taken some core that we're doing some work on that will help us and some additional logging runs have been done in the last well that we did that the core in when we did the pilot hole.

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So I don't have a defined what we're going to do yet in terms of the number of stages, but it's going to be somewhere between 15 and 20 stages, probably on the lower end for a 5,000 foot lateral. And we may experiment with some resin-coated sand, but again, the core's going to help us determine what kind of sand we really need to pump.

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Yes you know, William, I guess this next group of wells that we're going to frac in a batch order, I think we're coming up with the procedure that we like the best after having tested different types of procedures on the first three wells. We're still being carried on these others that are being lined up for frac right now. So this next group of wells is going to tell us a lot about how we want to proceed with the program.

And one thing that I don't think we brought out there and mentioned in the press release is we have made significant strides in reducing the drilling costs down there also by getting down to TD without having to run intermediate. And getting our number of days to get to TD down to what, Robert, about 27 or so, something like that? So like I said, we're still in the early stages a little bit.

Back up in the Bakken, some of our other operating companies that have been out there and some of our larger peers, if you will, out there have indicated a \$7 million well cost, and boy the minute I heard that I ran around to all our engineers and said, "You've got to shoot for \$6.9." So there you go.

William Butler—Stevens, Inc.

And then based on the results you've seen so far in the Bakken and in the Eagle Ford, where do you all feel comfortable on EURs given the ranges you've put out there? Would you air towards the low end or in the middle?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Let's talk about the Eagle Ford first, because the jury's still out. We are convinced that two out of our three wells probably weren't frac'd the way we need to do it on a go-forward basis. So I think we'll stick to the range that we've got in there, because what we've done so far hasn't proven or disproven anything out there.

And then on the Bakken, we're still comfortable on the low end of the range that we can have economic results out there, and thus we're working hard on the cost side of it, because we really can't affect the outcome of the EURs unless we totally mess up a frac or drill out a zone. But those things we're working really hard on. The range is still good, but obviously the results we've had to date are on the lower end of the range and we're working hard to see if we can improve that.

William Butler—Stevens, Inc.

Okay. Thank you, that's all I had.

Operator

Thank you. Our next question is coming from Welles Fitzpatrick from Johnson Rice. Please proceed with your question.

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Welles Fitzpatrick—Johnson Rice

Good morning. You guys have talked a lot about cost savings from tweaking the completions. Can you talk a little bit towards service availability and what costs are doing on a little bit more of an apples to apples basis in the Eagle Ford and the Bakken?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

I'll just give you one example of the Bakken, is that our sand costs are going up. I don't remember the exact number, but it's probably 25% to 30% per pound increase. We're not having—it's still difficult to get services, but we logistically planned long in advance and got things lined up. And we have a lot of services that are somewhat under our control in terms of either contracts or just our relationship, and it's worked to date very well. So the Eagle Ford's very similar in that we have this relationship with neighbors.

Howard Ehler—Chief Financial Officer, GeoResources, Inc.

Yes, everybody focuses in on rigs and pressure pumping, but there's a lot of other things that we've entered into contracts or we've done some pretty unique things in terms of helping new companies get started up and things along those lines, in terms of water handling, trucking, other logistics and things like that, that all add up into the AFE and so forth.

The third rig that we're looking for up there should be a walking rig, and that should further improve these days and so forth, drilling days, in terms of our pad drilling, in terms of a couple of wells to the south and a couple of wells to the north.

So, Welles, as you know and some of the folks in your firm know that have dealt with us a lot, the operational components is the thing that we have the most confidence in. We can't forecast what the cost of sand is going to be, what the price of oil's going to be and things like that, but we're working on it pretty hard.

Welles Fitzpatrick—Johnson Rice

Okay, perfect. And just one more, and I should know this, but if you could remind me. Do you guys complete an upper Eagle Ford? And if so, do you already get a contribution from the chalk or no?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Well our Eagle Ford thickness is not as great as some of the other areas where they do an upper Eagle Ford and maybe a lower Eagle Ford. When we frac'd our Flatonia wells and used microseismic, we did see some growth up into the Austin Chalk. We have no idea what the contribution is. So that's the best I can do for you.

Welles Fitzpatrick—Johnson Rice

Okay, perfect. Thanks so much, guys.

Operator



Thank you. Our next question is coming from Jason Wangler from SunTrust. Please proceed with your question.

Jason Wangler—SunTrust

Good morning, guys. Frank, just curious, you kind of hinted at it, but I believe now the carry with neighbors is complete, as soon as you get a couple more wells completed, and you guys will be heads up pretty much as we start next year?

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

Yes, we'll probably be heads up starting in mid December.

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc.

Our Newtonville well that we're going to drill in Gonzales County is a heads up well, Jason.

Jason Wangler—SunTrust

Okay. That's helpful. And then just curious, you guys did a nice job of breaking out the production kind of between the different areas. Do you have an idea, a rough number is fine, I don't want you to put everybody to work all day, Frank, but what that is operated versus non-operated for the roughly 1,600 barrels a day?

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc

Are you talking about the Bakken?

Jason Wangler—SunTrust

Yes.

Robert Anderson—Executive VP of Engineering & Acquisitions, GeoResources, Inc

We're probably up to about 1,300 or so non-operated.

Jason Wangler—SunTrust

Okay, that's helpful. I appreciate the time, guys.

Operator

Thank you. It appears there are no further questions. I'd like to now turn the floor back over to management for closing comments.

Frank A. Lodzinski—President & CEO, GeoResources, Inc.

Well thank you very much for joining us on our earnings call. You know we try to be forthright and totally transparent, and we're looking forward to reporting even better results going forward. Thank you very much.

Operator

This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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