

BEFORE THE STATE OIL AND GAS BOARD OF MISSISSIPPI

RE: PETITION OF DENBURY ONSHORE, LLC AS
UNIT OPERATOR FOR APPROVAL OF THE
PLAN OF UNITIZATION FOR THE NORPHLET
CO₂ POOL UNIT, DRI ICE FIELD, MADISON AND
RANKIN COUNTIES, MISSISSIPPI

FILED FOR RECORD

JUN 13 2006

STATE OIL AND GAS BOARD
LISA IVSHIN, SUPERVISOR

DOCKET NO. 36-2006-912

ORDER NO. 248-2006

ORDER

THIS CAUSE came to be heard on the Petition of Denbury Onshore, LLC (“Petitioner”) requesting approval of the Plan of Unitization for the Norphlet CO₂ Pool Unit, DRI Ice Field, Madison and Rankin Counties, Mississippi; and

WHEREAS, the Board finds that due, proper, and legal notice of the meeting of the Board for the purpose of considering and taking action with respect to such matter was given in the manner required by the rules and regulations of the Board; that due, legal, and sufficient proofs of publication and service are on file with the Board; and that the Board has full jurisdiction of the subject matter to hear and determine same; and

WHEREAS, pursuant to said Notice, a public hearing was held by said Board in the Hearing Room, Suite E, 500 Greymont Avenue, Jackson, Mississippi, commencing on May 17, 2006, at 9:30 o’clock a.m. at which hearing all persons present who desired to be heard on said matter were heard and all testimony and the evidence were duly considered by those present at said meeting; and

WHEREAS, the Board has fully considered said matter and the evidence and recommendations made in said hearing and finds as follows:

1.

Denbury hereby requests authority under Miss. Code Ann. § 53-3-101 et. seq. that this Board adopt the Unit and the agreements applicable thereto.

2.

The Plan of Unitization is set forth in the Unit Agreement and Unit Operating Agreement. Attached to the Petition and made a part thereof as Exhibit “1” is a true copy of the proposed Unit Agreement. Contained in said Unit Agreement as Exhibits “A” and “B” are a descriptive list of the tracts composing the Unit Area, showing the tract participation

factors and a plat of the Unit Area on which the boundary lines of the Unit Area and the tracts composing the Unit Area are shown. Also attached hereto and made a part hereof as Exhibit "2" is the proposed Unit Operating Agreement governing the working interest owners in the Unit Area.

3.

The proposed Unitized Formation is defined in Article 1.2 of the Unit Agreement (Exhibit "1") as follows:

1.2 "Unitized Formation" is the subsurface portion of the Unit Area described as those strata from 16,242 feet to a depth of 16,890 feet ELM and all formations between same productive of CO₂, as indicated on the electric log of the Denbury Onshore, LLC Pearl River 2-11 No. 1 Well located at the bottom hole location of 3,264 feet from the East line and 2,252 feet from the South line of Section 2, Township 7 North, Range 3 East, Rankin County, Mississippi, including those strata which can be correlated therewith, which Unitized Formation may be enlarged as herein provided. It is referred to herein as the Norphlet CO₂ Pool.

4.

Petitioner is the majority owner and operator for the working interest owners within the proposed unit. Prior to the effective date of the said Unit Agreement, the Petitioner shall have acquired the execution and approval of a minimum of seventy-five percent (75%) in interest of the owners or lessees on the basis of and in proportion to the surface acreage content of the Unit Area and at least seventy-five percent (75%) (exclusive of royalty interest owned by lessees or by subsidiaries or successors in title of any lessee) in interest of the royalty owners on the basis of and in proportion to the surface acreage content of the Unit Area of the Plan of Unitization as set forth in said agreements, Exhibits "1" and "2" hereto.

5.

The unit operation of the Unitized Formation as defined in Exhibit "1" is reasonably necessary in order to effectively carry on a joint effort calculated to substantially increase the ultimate recovery of CO₂ from a huge geologic structure underlying the Ross Barnett Reservoir. This structure may hold up to 2 TCF of CO₂ reserves. Approximately two-thirds of this structure is overlain by the Ross Barnett Reservoir which prevents drilling to develop same. The unitization is necessary for the joint effort calculated to substantially increase the ultimate recovery of CO₂ from the Unit and to prevent waste as defined in Miss. Code Ann. § 53-3-101 et seq. If this Unit is not formed, CO₂ will be produced from the units under the land units, but not those units under the Ross Barnett Reservoir. That would cause drainage

between tracts not equalized by counter-drainage. By forming this unit, all owners will participate in the production and sale of CO₂ from the entire underlain area. Such operations as applied to the common source of supply or portion thereof are feasible and will prevent waste or will, with reasonable probability, result in the recovery of substantially more CO₂, or both, from the unit so formed than would otherwise be recovered. The Plan of Unitization and the agreements effectuating the same are fair and reasonable under all of the circumstances and will protect the rights of all interested parties. The correlative rights of the interested parties will be protected. The estimated additional cost incident to conducting unit operations will not exceed the value of the estimated additional recovery of CO₂, gas, and such cost of unit operations shall not be paid by the royalty owners.

6.

Each drilling unit economically feasible to drill has been drilled (as could be possible due to the location of the Ross Barnett Reservoir), and a sufficient number of wells have been drilled to a sufficient depth and at such a location as is necessary for the Board to approve the boundaries of the Unit and to determine that the proposed Unitized Formation and the Unit Area have been sufficiently developed in accordance with the spacing pattern promulgated by the Board. Those tracts which have not been drilled are not economically feasible to drill with a reasonable expectation of encountering production in the Unitized Formation in paying quantities because of the Ross Barnett Reservoir and the wetlands surrounding same. The location of the Ross Barnett Reservoir prevents the drilling of many units and locations.

7.

The Unit Agreement and the Unit Operating Agreement attached hereto as Exhibits "1" and "2" respectively contain:

- (a) A description of the geographical area and the description of the pool or pools, or of any portion or portions or combinations thereof affected, which together constitute and are herein termed the "Unit Area."
- (b) A statement of the nature of the operations contemplated.
- (c) A formula for the allocation among the separately owned tracts in the Unit Area of all the CO₂ produced and saved from the Unit Area and not required in the conduct of such operations.
- (d) A provision for adjustment among the owners of the Unit Area (not including any royalty owners) of their respective investments in wells, tanks, pumps, machinery, materials, equipment and other things and services of value attributable to the unit operations.
- (e) A provision that the costs and expenses of unit operation, including

investment past and prospective, shall be borne by the owner or owners (not entitled to share in production free of operating costs and who, in the absence of unit operation would be responsible for the expenses of developing and operating) of each tract in the same proportion that such tracts share in unit production.

- (f) The designation of, or a provision for, the selection of a successor to the unit operator.
- (g) The time the unit operation shall become effective and the manner in which and the circumstances under which the unit operation shall terminate.

The said Unit Agreement and Unit Operating Agreement include and are subject to all provisions, adjustments, obligations and rights as prescribed by §§ 53-3-101 to 53-3-119, Mississippi Code Annotated (1972), (as amended). The Plan of Unitization herein described and the creation of the said Unit conform to the Conservation Laws of the State of Mississippi.

8.

Petitioner is proposing this Unit for production of CO₂. Petitioner seeks to unitize this now so all owners can be paid their pro-rata share of unit production from initial sales from the wells drilled, and in the process of being drilled, on this significant CO₂ bearing structure.

IT IS, THEREFORE, ORDERED AND ADJUDGED by the State Oil and Gas Board of Mississippi that the Plan of Unitization for the Norphlet CO₂ Pool Unit, DRI Ice Field, Madison and Rankin Counties, Mississippi is hereby approved and hereby approves the Unit Agreement and the Unit Operating Agreement as authorized and provided by Miss. Code Ann. § 53-3-101 to § 53-3-119 (1972) (as amended) in the DRI Ice Field, Madison and Rankin Counties, Mississippi. Petitioner shall file an additional Petition to implement the Unit after it secures the necessary approval of the unit owners.

IT IS FURTHER ORDERED AND ADJUDGED that this Order shall be in force and effect from and after May 17, 2006.

IT IS FURTHER ORDERED AND ADJUDGED that Petitioner shall acquire any other permits, if any, required by any other permitting authority.

ORDERED AND ADJUDGED this 13th day of June, 2006.

STATE OIL AND GAS BOARD OF
MISSISSIPPI


CHAIRMAN

Prepared By:

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