

BEFORE THE STATE OIL AND GAS BOARD OF MISSISSIPPI

FILED FOR RECORD

RE: PETITION OF DENBURY ONSHORE, LLC TO
AMEND THE SPECIAL FIELD RULES FOR THE
SMITHDALE FIELD, AMITE COUNTY,
MISSISSIPPI

JUN 15 2005

STATE OIL AND GAS BOARD
WALTER BOONE, SUPERVISOR

DOCKET NO. 71-2005-159

ORDER NO. 147-2005

ORDER

THIS CAUSE came to be heard on the Petition of Denbury Onshore, LLC (“Petitioner”) requesting the Board to amend the Special Field Rules for the Smithdale Field in Amite County, 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 18, 2005, 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.

Petitioner is the current operator of the Field. Special Field Rules for the Field were last adopted or amended for this Field in Docket No. 300-2003-159, Order No. 528-2003.

2.

The Field contains one unitized pool. Petitioner installed a CO₂ tertiary oil recovery program in the Field which is operated in conjunction with a similar program in the McComb and Olive Fields. The tertiary oil recovery program will require that the crude oil be commingled from the various unitized fields because of the common facilities necessary to inject CO₂ into the ground and separate the crude oil, CO₂, water, and natural gas produced

from each field. Finally, Petitioner will use a central tank battery from which all oil sales from all fields will be made.

3.

Petitioner seeks authority to commingle production from all wells at one facility and prorate the production to each well, field, and unit based on individual well tests which will be performed not less than once per month.

4.

The amendment to the Special Field Rules will promote conservation, protect the co-equal and correlative rights of all owners in interest, avoid the drilling of unnecessary wells and permit oil and gas to be produced which would not otherwise be recoverable.

IT IS, THEREFORE, ORDERED AND ADJUDGED by the State Oil and Gas Board of Mississippi that the Special Field Rules for the Smithdale Field shall be and hereby are amended as follows:

**AMENDED SPECIAL FIELD RULES
SMITHDALE FIELD
AMITE COUNTY, MISSISSIPPI**

A. FIELD AREA

The Smithdale Field, as used herein, is comprised of the following lands:

TOWNSHIP 3 NORTH, RANGE 6 EAST

Section 3

The NE/4 of the NE/4
The NW/4 of the NE/4
The NE/4 of the NW/4
The NW/4 of the NW/4

TOWNSHIP 4 NORTH, RANGE 6 EAST

Section 8

The NE/4 of the NE/4
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Section 9

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Section 15

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Section 16

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Section 17

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Section 20

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Section 21

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Section 22

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Section 26

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Section 27

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Section 28

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Section 29

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Section 32

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Section 33

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Section 34

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Section 35

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(1) **The Lower Tuscaloosa Pool** as used herein, shall be construed to mean those strata of the Lower Tuscaloosa Formation productive or formerly productive of oil and gas from the depth of 10,950 feet to a depth of 11,270 feet, as measured by the induction-electrical log run on April 11, 1960, in the Larco Drilling Co., Paul A. Dykes et al No. 1 Well, in the SW 1/4 of the NE 1/4 of Section 21, Township 4 North, Range 6 East, Amite County, Mississippi, including those strata productive of oil and gas which can be correlated therewith.

B. RULES

RULE 1 - SPACING OF OIL WELLS

(1) Every well drilled and completed in the Lower Tuscaloosa Pool located within the Unit Area of the Smithdale Field Unit shall be located not less than 100 feet from any exterior boundary of any Unit boundary with the operator being granted the flexibility of drilling, completing and operating, upon approval of the Supervisor, as many wells as deemed necessary by the operator and the Oil and Gas Board Supervisor for the efficient operation of said Units. When a well is drilled at any location less than 100 feet from any exterior boundary of the Unit Area, a directional survey shall be run and submitted to the Board prior to the issuance of an allowable.

(2) The characteristics of Lower Tuscaloosa Pool in said Field are such that any well located in said Pool that is not within the Smithdale Field Unit, as hereinabove prescribed, shall be drilled upon a drilling unit consisting of 80 contiguous surface acres, or two governmental quarter-quarter sections containing not less than 72 acres or more than 88 acres upon which no other drilling or producing well is located. Any drilling unit not composed of two governmental quarter-quarter sections must be completely encompassed by the perimeter of a rectangle 1,600 feet by 2,725 feet. Such wells shall be located at least 660 feet from every other drilling or producible well located in conformity with this rule and not less than 330 feet from every exterior boundary of the individual drilling unit.

RULE 2 - SMITHDALE FIELD UNIT

(1) The Smithdale Field Unit is that portion of the following lands lying

within the *Smithdale Field*, underlain by the unitized portion of the Lower Tuscaloosa Pool (“Unitized Formation”) and described as follows:

AMITE COUNTY, MISSISSIPPI
TOWNSHIP 3 NORTH, RANGE 6 EAST

Section 3

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(2) "Unitization Formation" is the subsurface portion of the Unit Area described as those strata of the Tuscaloosa Formation, productive or formerly productive of oil and gas from the depth of 10,950 feet to a depth of 11,270 feet as measured by the induction-electrical log run on April 11, 1960, in the Larco Drilling Co., Paul A. Dykes et al No. 1 Well, in the SW 1/4 of the NE 1/4 of Section 21, Township 4 North, Range 6 East, Amite County, Mississippi, including those strata productive of oil and gas which can be correlated therewith.

(3) Spacing of Wells in Smithdale Unit

(a) Notwithstanding any other provisions contained in these Special Field Rules, the location of injection and production wells in the Lower Tuscaloosa Pool shall be selected by the operator and shall be governed by the standards of geology and petroleum engineering designed to promote the greatest ultimate recovery of hydrocarbons contained in the pool. However,

no well may be drilled, injected into or produced from said pool nearer than 100 feet from any exterior boundary of the fieldwide unit, except upon permit issued by the Mississippi State Oil and Gas Board, after notice and hearing.

(b) The operator may drill wells utilizing directional or horizontal drilling techniques designed to increase the ultimate recovery of hydrocarbons contained in the pool without notice and hearing; provided, however, that (a) no portion of the drainhole of any such well so drilled shall be nearer than 100 feet from any exterior boundary of the Unit, except upon permit issued by the Mississippi State Oil and Gas Board, after notice and hearing, and (b) the operator shall file a directional survey and other information required by rule or written policy of the Board after completion.

(4) Pressure Maintenance and Secondary Recovery Program Authorized

Denbury Onshore, LLC, as operator of the Unit, is hereby authorized to conduct and carry out secondary recovery, pressure maintenance, repressuring operations, cycling operations, water flooding operations, and the injection of extraneous substances in the Unit and any combination thereof, or any other form of joint effort calculated to substantially increase the ultimate recovery of oil or gas, or both, from the fieldwide unit as is authorized by the Plan of Unitization placed into effect by the Mississippi State Oil and Gas Board. The operator may use for injection purposes existing wells located in said Unit which may be converted to injection wells or wells may be drilled on said fieldwide unit for such purposes. Any such wells drilled as injection wells or converted to injection wells by operator on the fieldwide unit as a part of pressure maintenance and/or secondary recovery operations may be approved by the Mississippi State Oil and Gas Board on administrative permit, without notice and hearing, upon the operator filing with the Board a duly executed FORM 2, the required permit fee for each such well, and all evidence and information required under Statewide Rule 63.

(5) Allocation of Production

The allowable for the Unit shall be established by the Mississippi State Oil and Gas Board. The Unit is hereby granted a temporary allowable of 5,000 barrels of oil per day until otherwise changed by the Board. The allowable production of the said

fieldwide unit may be produced by any well or wells on said fieldwide unit; provided, however, that no well shall be operated in such a manner as to cause waste as defined by the Laws of the State of Mississippi.

(6) Surface Storage, Measurement and Transfer Systems

(a) The operator of the Unit may maintain such separators stock tanks, metering devices, connections and storage facilities as it deems necessary to reasonably measure the total production from the fieldwide unit. Separate measurement or storage for the wells and leases within the fieldwide unit shall not be necessary.

(b) Automatic custody transfer systems which automatically test, sample, measure and transfer the production from the operator to the purchaser are hereby authorized in said fieldwide unit. Such systems, if used, will be equipped with a sampling device which will take a representative sample of the total production passing through the system in order that the specific gravity and basic sediment and water content can be determined. Each custody transfer system, if used, will be equipped with a volume displacement type metering device which registers the volume of oil passed through it in barrels or multiples thereof.

(c) Operator shall have the right to use surface storage, measurement, and transfer systems of other fieldwide units in this area for all purposes so long as reasonably accurate measurement for production may be obtained.

RULE 6 - MEASUREMENT PROCEDURES AND FACILITIES

The Operator of the Field shall be permitted to commingle production at the surface from the Smithdale, McComb, and Olive Fields for collection and sale at a central tank battery as part of its secondary and tertiary oil recovery projects. This includes a central tank battery and a central facility for oil, water, and CO₂ production, cycling and injection operations. The oil and gas production from the Fields may be commingled in a common storage system. The Operator shall install a flowline, header and measurement system that allows each well in each of the three Fields to be separately and individually tested on a periodic basis, not less than once each month. If, upon a sale therefrom, a variance exists

between the measurement from the common storage system and the measurement from the production of all the wells commingled in such common storage system, then such variance shall be allocated back to each of the wells producing into the common storage system proportionately to the production measured from each of the wells on the basis of the periodic tests.

(b) Each producing well shall be so equipped that gas/oil ratio and bottomhole or other pressure test may be made.

(c) Each producing well shall be connected to a metering system as will permit the adequate testing of each individual well under usual operating conditions without the necessity of closing in any other well. Each well shall be tested not less than once per month for allocation of fieldwide production and between individual units. Separators, stock tanks or measuring devices and connections thereto shall be subject to approval by the Supervisor.

RULE 7 - AMENDMENT OF SPECIAL FIELD RULES

The Board expressly reserves the right, after notice and hearing, to alter, amend or repeal any and all of the above rules and regulations, or to grant exceptions to all or any part thereof.

RULE 8 - APPLICABILITY OF STATEWIDE RULES

All rules and regulations contained in the Statewide Order No. 201-51, and any amendments thereto, are hereby adopted and shall apply to said field, to the extent not inconsistent with the above rules.

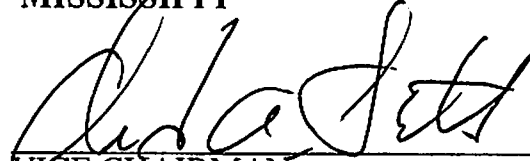
*** * * End of Special Field Rules * * ***

IT IS FURTHER ORDERED AND ADJUDGED that this Order shall be in force and effect from and after May 18, 2005.

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 15th day of June, 2005.

STATE OIL AND GAS BOARD OF
MISSISSIPPI



VICE CHAIRMAN
(Acting Chairman)

Prepared By:

William F. Blair
BLAIR & BONDURANT, P.A.
Post Office Box 321423
Jackson, MS 39232
(601) 992-4477 - Telephone
(601) 992-9189 - Telecopier