DENBURY RESOURCES INC

FORM 8-K
(Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 19, 2008

DENBURY RESOURCES INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

1-12935 *(Commission File Number)*	**20-0467835** *(I.R.S. Employer Identification No.)*
5100 Tennyson Parkway **Suite 1200** **Plano, Texas** *(Address of principal executive offices)*	**75024** *(Zip code)*

Registrant's telephone number, including area code: **(972) 673-2000**

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01 Entry into a Material Definitive Agreement

On August 19, 2008, the principal wholly-owned operating subsidiary of Denbury Resources Inc. (NYSE: DNR), Denbury Onshore, LLC, entered into an agreement with a privately-owned company, Wapiti Energy, LLC and its wholly-owned subsidiaries, Wapiti Operating, LLC and Wapiti Gathering, LLC to purchase a 91.4% working interest (approximate net revenue interest of 77.6%) in Conroe Field, an oil field with oil reserves that have the potential to be extracted using Carbon Dioxide for tertiary flooding. The Company will succeed the seller as operator of the field.

The primary assets are north of Houston, Texas. The transaction is expected to close in October 2008, subject to our due diligence and other conditions to closing customary for transactions of this type. The acquisition price is $600 million and is subject to adjustment at the closing date or during the subsequent 36 months if oil futures prices exceed $121 per barrel (the "Base Price") as follows:

- At the closing date the purchase price will be adjusted upward if the average settlement price (using the last business day prior to closing) of the NYMEX crude oil futures strip prices for the ensuing 16 months (i.e. November 2008 – February 2010) (the "Adjustment Price") is then in excess of the $121 per barrel Base Price. The purchase price will increase by $7.2 million for each dollar (or fraction thereof) per barrel of oil price increase in the Adjustment Price over the Base Price. If the Adjustment Price on the date of closing is less than $121 per barrel, the Adjustment Price will be $121 per barrel.
- For a period of 36 months after closing, the seller shall have a one-time election (to be exercised on any business day of the seller's choosing) to receive additional consideration if the average settlement price of the 12 month NYMEX strip of crude oil futures on the day of election ("Election Price") is in excess of the Adjustment Price. The additional consideration will be $7.2 million for each dollar (or fraction thereof) that the Election Price exceeds the Adjustment Price.
- The maximum additional consideration that the seller may receive pursuant to the two opportunities for additional consideration will be $125 million.

On August 20, 2008, we transferred to the seller $30 million as a performance deposit which will be credited to the purchase price at closing. If the conditions to closing are satisfied and the acquisition is not consummated by October 1, 2008 due to our failure to perform our material obligations, then we will forfeit the performance deposit.

We plan to fund the acquisition initially with bank debt, which will require an anticipated increase in our bank credit line. Currently our borrowing base under our credit agreement is $1.0 billion with the commitment amount set at $350 million. The borrowing base represents the amount that can be borrowed from a credit standpoint based on our assets, as confirmed by the banks, while the commitment amount is the amount the banks have committed to fund pursuant to the terms of the credit agreement. The banks have the option to participate in any borrowing

request by us in excess of the commitment amount, up to the borrowing base limit, although the banks are not obligated to fund any amount in excess of the commitment amount. We intend to follow up with other sources of funds including possibly other debt financing or the sale of our Barnett Shale properties in North Texas.

We plan to build an eighty mile pipeline to transport to the Conroe Field the CO_2 to be used for tertiary flooding. For more details on our expected expenditures to extract oil from the Conroe Field, see the attached press release.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

Exhibit Number	Document Name
Exhibit 99.1	Press release dated August 21, 2008

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DENBURY RESOURCES INC.

Date: August 25, 2008

By: /s/ Phil Rykhoek
Name: Phil Rykhoek
Title: Senior Vice President and Chief Financial Officer

Exhibit 99.1

DENBURY RESOURCES INC.

P R E S S R E L E A S E

Denbury Agrees to Purchase Texas Field for Potential Tertiary Flood
Update on CO_2 Sources

News Release
Released at 7:30 a.m. CDT

DALLAS — August 21, 2008 — Denbury Resources Inc. (NYSE: DNR) ("Denbury" or the "Company") announced today that it has entered into an agreement with a privately-owned company to purchase a 91.4% interest in Conroe Field, a significant potential tertiary flood north of Houston, Texas, for $600 million, plus additional potential consideration if oil prices exceed $121 per barrel during the next three years as further discussed below. Closing is expected in early October 2008 and is subject to normal title, environmental and other due diligence. The Company plans to temporarily fund the acquisition with bank debt by seeking an increase in its bank credit line, but intends to ultimately seek more permanent financing which may include other debt financing or the sale of its Barnett Shale properties in North Texas.

Highlights of Purchase Agreement

- The Company will purchase the seller's interest in the Conroe Field Unit and other interest in the Conroe Field, excluding a retained working interest of approximately 2.8%. Denbury will obtain a total working interest of approximately 91.4% in the unit (approximate net revenue interest of 77.6%).
- The Company has internally-estimated, on a preliminary basis, that the Conroe Unit has an estimated net reserve potential from CO_2 tertiary recovery of approximately 130 million barrels of oil equivalent ("MMBbls") depending on the ultimate recovery factor. The Company has also preliminarily estimated that the acquired interests have 18.2 MMBOE of proved conventional reserves as of September 1, 2008 with an estimated PV10 value of approximately $530 million based on an oil price of $113 per barrel.
- The Company will need to build a pipeline to transport CO_2 to this field, preliminarily estimated to cover approximately 80 miles, as an extension of the Green pipeline. The Company has not yet developed a complete estimate of the costs for the pipeline, nor a specific route, but is initiating studies relating to the construction of this line, with a goal of having it installed and operational as early as 2012.
- Based on the Company's preliminary estimates, the Company will spend an additional $750 million to $1.0 billion to develop the Conroe Unit as a tertiary flood, excluding the cost of the CO_2 pipeline.
- The purchase consideration consists of $600 million cash plus additional potential consideration if the one year (or 16 months as specified) NYMEX average futures price strip exceeds $121 per barrel. The seller will have two points in time to potentially receive additional consideration; one potential adjustment to occur at closing and the other potential adjustment to occur at the election of the seller anytime during the three years following closing. The seller will receive an

additional $7.2 million per dollar increase in the oil futures price above $121 per barrel with a maximum total incremental consideration of $125 million.

- The Conroe assets are currently producing around 2,500 BOE/d net to the Company's acquired interest.

Update on CO_2 Sources

The Company is continuing to pursue additional sources of CO_2, particularly anthropogenic (man-made) sources in the Gulf Coast and in other areas that could be connected to our CO_2 pipeline infrastructure. In this regard, to date the Company has signed three CO_2 offtake agreements to purchase CO_2 from proposed gasification projects, which if constructed could deliver as much as 800 MMcf/d of CO_2. In addition to these three CO_2 offtake contracts, the Company has signed an additional seven Letters of Intent ("LOI") for additional proposed gasification projects. The potential volume of CO_2 from these seven projects would bring the Company's total potential anthropogenic CO_2, volumes, including potential volumes under the three existing contracts, to approximately 2.5 Bcf/d. The Company has typically entered into LOIs for proposed projects during the development stage and then has negotiated CO_2 offtake agreements before a project enters into the financing phase. The Company is currently negotiating offtake agreements for five of the seven projects under LOIs, and thus would expect to enter into additional CO_2 offtake agreements in the near future. The five projects currently under negotiation have a combined 1.2 Bcf/d of additional potential CO_2 volumes, which would more than double the Company's currently contracted volumes of anthropogenic CO_2. While it is likely that less than all of the proposed projects will actually be constructed, the Company continues to believe that a sufficient number of the projects will be built (or additional projects will be developed) to provide CO_2 volumes matching or exceeding its estimated deliverability from Jackson Dome.

In addition to the Company's efforts focused on potential gasification projects, the Company has begun discussions pertaining to several existing facilities that are presently emitting CO_2. The majority of these projects have substantially lesser volumes (20 to 40 MMcf/d) than the proposed gasification projects, but these existing facilities are all located in close proximity to the Company's Green Pipeline. Thus, addition of these sources could be accomplished without construction of significant pipeline laterals. CO_2 from these existing sources could be captured and transported through the Green Pipeline in approximately one-half the time that it will take to construct the proposed gasification projects.

Finally, the Company is in the final stages of completing its 136 square mile 3D survey in the Jackson Dome area to potentially identify the location of additional volumes of natural CO_2. At this time, the Company does not have any additional information other than the geological leads that led the Company to conduct the seismic survey. All but one of eleven structures in the Jackson Dome area that have been tested contain significant volumes of CO_2, and thus the Company believes it is reasonable to expect to develop additional CO_2 reserves from structures identified or delineated by this seismic survey.

CEO Comments

Gareth Roberts, CEO of Denbury, commented on the Conroe Unit acquisition, saying: “This agreement provides for a significant strategic addition for Denbury, the largest potential tertiary flood we have acquired to date. This will significantly expand our area of operations and growth opportunities in the Texas Gulf Coast region and allow us to more completely utilize the Green Pipeline that is in progress. While the exact timing of the Conroe Unit flood is difficult to forecast at this point, it is our goal to begin flooding this field within the next five years. We are continuing to pursue additional sources of CO_2, particularly anthropogenic sources in the Gulf Coast area, which if all are developed, would potentially provide us with over 2.5 Bcf/d of CO_2. While we know that it is highly unlikely that all the proposed plants will be built, we believe that it is reasonable to assume that those that are built will allow us to match or exceed our anticipated volumes from our natural CO_2 source at Jackson Dome. As we desire to keep our balance sheet strong, we plan to investigate the possible sale of our Barnett Shale properties to pay for the Conroe Unit acquisition, potentially in a tax-free like-kind exchange. However, if we are not able to obtain a reasonable price for our Barnett properties, we would still have sufficient credit to finance this acquisition with bank or other debt. This purchase is very significant for us and the effective exchange of the Barnett properties for a large tertiary flood candidate is exactly the transaction we have been looking for. This will make us even more focused on our tertiary operations, which continue to provide Denbury with growth opportunities for years into the future.”

Denbury Resources Inc. (www.denbury.com) is a growing independent oil and natural gas company. The Company is the largest oil and natural gas operator in Mississippi, owns the largest reserves of CO_2 used for tertiary oil recovery east of the Mississippi River, and holds significant operating acreage in the Barnett Shale play near Fort Worth, Texas, onshore Louisiana and Alabama, and properties in Southeast Texas. The Company’s goal is to increase the value of acquired properties through tertiary recovery operations, combined with a combination of exploitation, drilling and proven engineering extraction practices.

This press release, other than historical financial information, contains forward looking statements that involve risks and uncertainties including expected reserve quantities relating to the proposed acquisition and values relating to the Company’s proved reserves, the Company’s potential reserves from its tertiary operations, forecasted production levels relating to the Company’s tertiary operations and overall production, potential volumes and sources of anthropogenic CO_2, estimated capital expenditures, and other risks and uncertainties detailed in the Company’s filings with the Securities and Exchange Commission, including Denbury’s most recent reports on Form 10-K and Form 10-Q. These risks and uncertainties are incorporated by this reference as though fully set forth herein. These statements are based on engineering, geological, financial and operating assumptions that management believes are reasonable based on currently available information; however, management’s assumptions and the Company’s future performance are both subject to a wide range of business risks, and there is no assurance that these goals and projections can or will be met. Actual results may vary materially.

Cautionary Note to U.S. Investors — The United States Securities and Exchange Commission permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be

economically and legally producible under existing economic and operating conditions. We use certain terms in this press release, such as probable and potential reserves, that the SEC's guidelines strictly prohibit us from including in filings with the SEC.

For further information contact:

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www.denbury.com