



LETTER TO THE SHAREHOLDERS

DEAR FELLOW SHAREHOLDERS,

2018 continued to form the foundation for Denbury's promising future, providing a prelude to Denbury's dynamic potential in a strengthening oil market. While we certainly did not desire the steep fall in oil prices in the fourth quarter, it provided a strong reinforcement of the importance of Denbury's sustained emphasis on balance sheet improvement, cost discipline and capital flexibility.

Many factors and uncertainties contribute to the oil supply and demand equation. It is our belief that projections for strong long-term oil demand, together with the likelihood that supply growth from tight oil development will slow and potentially peak around the middle of the next decade, combine to support a conclusion that significant long-term additional oil supply will be critical. At the same time, however, investor sentiment for the industry has been challenging, with a desire for companies to show value creation instead of growing at all costs, all amid increasing public pressure for oil producing companies to limit their carbon impact while safely and responsibly providing this vital commodity that powers much of the world's economy.

This combination of circumstances and sentiments aligns perfectly with the core of Denbury's business, both currently as well as in the future. With our strong focus on CO₂ enhanced oil recovery (EOR), our current and planned developments provide decades of low decline, high margin oil production while annually injecting into our reservoirs over 3 million tons of industrial-sourced CO₂ that would otherwise be emitted into the atmosphere. Putting that number in perspective, this amount of CO₂ is equivalent to the amount of CO₂ emitted annually by roughly 700,000 vehicles.

The IEA *World Energy Outlook 2018* projects strong growth in worldwide EOR production, more than doubling from current levels to approach nearly five million barrels of production per day by 2040. As the only sizable U.S. public E&P company whose EOR operations generate the majority of its production, Denbury's broad EOR experience and expertise, our deep inventory of existing

oil fields, and our significant CO₂ sources and infrastructure position us very well to continue to be the industry leader in EOR for its long future.

Reflecting on 2018, I am inspired by the sustained dedication and skills of our employees, and I am more than encouraged and impressed by the great strides we have taken together as a company. Importantly, we set Company records in each of our safety and spill prevention measures, a strong indicator that we continue to be on the right track in our operations and priorities. The Company had several other important accomplishments during the year, including:

- Significant strengthening of our balance sheet, reducing our leverage ratio by over two turns, and lowering our net debt by over \$280 million;
- Reducing year-on-year G&A by an incremental \$30 million, or 30%;
- Sustained capital discipline, maintaining total capital within our original guidance range and continuing our longstanding objective of spending within cash flow, generating over \$80 million in free cash;
- Replacing reserves in excess of our annual production, with year-end 2018 reserves up 111% compared to year-end 2017 reserves, less 2018 production;
- Meaningful success in our high value, organic exploitation program, highlighted by seven successful wells and a strong inventory for continued exploitation development in 2019 and beyond;
- Sanctioning of the Cedar Creek Anticline EOR development, a cornerstone project with the potential to recover in excess of 400 million barrels of oil from this great asset;
- Significant success with Phase Five development at Bell Creek, exceeding our expectations; and
- Extending our bank credit facility by two years to 2021, while simultaneously refinancing the full outstanding balance of the facility into a new note due in 2024, leaving a fully undrawn credit facility.

Christian S. Kendall
*President and
Chief Executive Officer*





The fourth quarter of 2018 also provided a strong reminder of the reasons we must continue to focus our business in 2019 around \$50 oil. The collapse in oil price was nearly unprecedented in terms of how far and how fast the price fell, but our cost discipline, coupled with the capital flexibility afforded by our low-decline assets, allowed us to quickly adjust plans for a lower price environment in 2019 while still generating meaningful free cash.

We constantly consider the future of EOR, and we see great potential in the Eagle Ford shale, where only around 10% of original hydrocarbons in place are recovered through primary production. The transaction we announced in late October — where we would have acquired Penn Virginia Corporation — was the result of careful and deliberate consideration of this great potential and opportunity, and, if consummated, would have provided the Company with a platform to commence work on this new frontier for EOR. While we had to make the tough decision to mutually terminate the transaction in early 2019 - primarily due to the poor market conditions and opposition from certain Penn Virginia shareholders — we continue to believe in the significant potential for EOR in the Eagle Ford and will continue to pursue practical opportunities to expand our business in areas where our EOR expertise, experience, and extensive CO₂ resources can create value for the benefit of all Denbury stakeholders.

Looking ahead to 2019, our priorities are clear. While we have made significant improvements in our balance sheet, we will continue with a sharp focus on progressing additional impactful initiatives. As we have done in past years, we will manage spending across our high-margin asset base to generate significant free cash flow, we will

continue to drive the CCA EOR project along its path toward first oil, and we will expand our exploitation work to test new, high potential concepts across our asset base. We will also continue to optimize and expand production from our great set of legacy fields, where our technical teams continue to find opportunities to extract even greater value.

Shareholders, I deeply value your longstanding commitment to Denbury. Your faith in the Company and your unwavering support of our team is inspirational and energizing. We share a great vision for what Denbury can become, and I, along with the rest of the Denbury team, are committed to bringing that vision to reality.

Sincerely,

[Chris Kendall](#)
President and
Chief Executive Officer

March 29, 2019