SANDRIDGE ENERGY INC
Form 10-K
February 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-33784

SANDRIDGE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8084793**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
123 Robert S. Kerr Avenue	
Oklahoma City, Oklahoma	**73102**
(Address of principal executive offices)	**(Zip Code)**

(405) 429-5500

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of our common stock held by non-affiliates on June 30, 2011 was approximately $3.9 billion based on the closing price as quoted on the New York Stock Exchange. As of February 17, 2012, there were 415,391,090 shares of our common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement for the 2011 Annual Meeting of Stockholders are incorporated by reference in Part III.

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SANDRIDGE ENERGY, INC.

2011 ANNUAL REPORT ON FORM 10-K

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Information Regarding Forward-Looking Statements

Various statements contained in this report, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These forward-looking statements may include projections and estimates concerning 2012 capital expenditures, the Company s liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, elements of the Company s business strategy, statements regarding the Company s pending acquisition of Dynamic Offshore Resources, LLC (Dynamic), and other statements concerning the Company s operations, economic performance and financial condition. Forward-looking statements are generally accompanied by words such as estimate, assume, target, project, predict, believe, expect, anticipate, potential, could, may, foresee, plan, goal, should, i the uncertainty of future events or outcomes. The Company has based these forward-looking statements on its current expectations and assumptions about future events. These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate under the circumstances. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to, or effects on the Company s business or results. The forward-looking statements in this report speak only as of the date hereof. The Company disclaims any obligation to update or revise these statements unless required by law, and it cautions readers not to rely on them unduly. While the Company s management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties relating to, among other matters, the risks discussed in Risk Factors in Item 1A of this report, including the following:

- risks associated with drilling oil and natural gas wells;
- the volatility of oil and natural gas prices;
- uncertainties in estimating oil and natural gas reserves;
- the need to replace the oil and natural gas the Company produces;
- the Company s ability to execute its growth strategy by drilling wells as planned;
- risks to the Company s ability to drill productive, economically viable oil and natural gas wells;
- risks and liabilities associated with acquired properties and risks related to the integration of acquired businesses;
- amount, nature and timing of capital expenditures, including future development costs, required to develop the Company s undeveloped areas;
- concentration of operations in the Mid-Continent and west Texas;
- economic viability of certain natural gas production in west Texas due to high CO_2 content;

availability of natural gas production for the Company s midstream services operations;

limitations of seismic data;

the potential adverse effect of commodity price declines on the carrying value of the Company s oil and natural gas properties;

severe or unseasonable weather that may adversely affect production;

availability of satisfactory oil and natural gas marketing and transportation;

availability and terms of capital to fund capital expenditures;

amount and timing of proceeds of asset sales and asset monetizations;

substantial existing indebtedness;

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- limitations on operations resulting from debt restrictions and financial covenants;
- potential financial losses or earnings reductions from commodity derivatives;
- potential elimination or limitation of tax incentives;
- competition in the oil and natural gas industry;
- general economic conditions, either internationally or domestically or in the jurisdictions in which the Company operates;
- costs to comply with current and future governmental regulation of the oil and natural gas industry, including environmental, health and safety laws and regulations, and regulations with respect to hydraulic fracturing; and
- the need to maintain adequate internal control over financial reporting.

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PART I

Item 1. *Business*

GENERAL

SandRidge Energy, Inc. (including its consolidated subsidiaries and variable interest entities of which it is the primary beneficiary, the Company or SandRidge) is an independent oil and natural gas company headquartered in Oklahoma City, Oklahoma, concentrating on development and production activities related to the exploitation of its significant holdings in the Mid-Continent area of Oklahoma and Kansas and in west Texas. The Company s primary focus in the Mid-Continent area is the Mississippian formation, a shallow hydrocarbon system in northern Oklahoma and Kansas, where it had approximately 1,329,000 net acres under lease at December 31, 2011. The Company s primary area of focus in west Texas is the Permian Basin, where it had approximately 225,000 net acres under lease at December 31, 2011. The Company s oil properties in the Permian Basin include properties acquired from Forest Oil Corporation and one of its subsidiaries (collectively, Forest) in December 2009 (the Forest Acquisition) and properties owned by Arena Resources, Inc. (Arena), which was acquired by the Company in July 2010 (the Arena Acquisition). The Company also owns and operates other interests in the Mid-Continent, West Texas Overthrust (the WTO), Gulf Coast and Gulf of Mexico.

As of December 31, 2011, the Company s total estimated proved reserves were 470.6 MMBoe, of which approximately 52% were oil and approximately 49% were proved developed. As of December 31, 2011, the Company had 5,043 gross (4,266.9 net) producing wells, substantially all of which it operates, and approximately 2,695,000 gross (2,047,000 net) total acres under lease. As of December 31, 2011, the Company had 21 rigs drilling in the Mid-Continent and 15 rigs drilling in the Permian Basin.

The Company also operates businesses that are complementary to its primary development and production activities, including gas gathering and processing facilities, an oil and natural gas marketing business and an oil field services business, including its wholly owned drilling rig business, Lariat Services, Inc. (Lariat). As of December 31, 2011, the Company s drilling rig fleet consisted of 30 operational rigs. The Company also captures and transports carbon dioxide (CO_2) to the Permian Basin for use in tertiary recovery projects. SandRidge CO_2 refers to the Company s wholly owned subsidiary SandRidge CO_2 LLC. These complementary businesses provide the Company with operational flexibility and an advantageous cost structure by reducing the Company s dependence on third parties for these services.

The Company s principal executive offices are located at 123 Robert S. Kerr Avenue, Oklahoma City, Oklahoma 73102 and the Company s telephone number is (405) 429-5500. SandRidge makes available free of charge on its website at *http://www.sandridgeenergy.com* its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). Any materials that the Company has filed with the SEC may be read and copied at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549 or accessed via the SEC s website address at *http://www.sec.gov*.

This report includes terms commonly used in the oil and natural gas industry, which are defined in the Glossary of Oil and Natural Gas Terms beginning on page 28.

BUSINESS STRATEGY

The Company s primary objectives are to achieve long-term growth and maximize stockholder value over multiple business cycles by pursuing the following strategies:

Concentrate in Core Operating Areas. The Company s primary areas of operation are (1) the Mid-Continent area of Oklahoma and Kansas and (2) west Texas. Concentrating the Company s drilling and producing activities in these core areas allows the Company to further build and utilize its technical expertise in order to interpret specific geological and operational trends. By concentrating in these core areas, the Company is able to (i) achieve economies of scale and breadth of operations, both of which help to control costs, and (ii) opportunistically grow its holdings and operations in these areas in order to achieve production and reserve growth.

Focus on Conventional Reservoirs. The Company focuses its development efforts primarily in areas with conventional, shallow, low-cost, permeable carbonate reservoirs with decades of production history. The nature of these reservoirs allows the Company to execute low-risk, repeatable drilling programs with predictable production profiles and a higher certainty of economic returns. Further, due to these low pressure and shallow characteristics, the Company is able to mitigate rising service costs.

Pursue Opportunistic Acquisitions. The Company occasionally reviews acquisition targets to complement its existing asset base. Accordingly, the Company selectively identifies such targets based on several factors including relative value, oil content, location and, when appropriate, seeks to acquire them at a discount to other opportunities.

Maintain Flexibility. The Company has multi-year inventories of both oil and natural gas drilling locations within its core operating areas. Additionally, the Company maintains its own fleet of drilling rigs through Lariat. Maintaining inventories of both oil and natural gas drilling locations as well as its own drilling rigs allows the Company to efficiently direct capital toward projects with the most attractive returns.

Mitigate Commodity Price Risk. The Company enters into derivative contracts in order to mitigate commodity price volatility inherent in the oil and natural gas industry. By increasing the predictability of cash inflows for a portion of its future production, the Company is better able to ensure funding for its longer term development plans and rates of return on its capital projects.

Monetize Assets. The Company periodically evaluates its properties to identify opportunities to monetize assets in order to fund or accelerate development within its areas of focus. Proceeds realized from such transactions may be used to pay down amounts outstanding under the Company s senior secured revolving credit facility (the senior credit facility), to fund its drilling program or for general corporate purposes.

2011 DEVELOPMENTS

Divestitures

Sale of Wolfberry Assets. In July 2011, the Company sold its Wolfberry assets in the Permian Basin for $151.6 million, net of fees and post-closing adjustments. The divested properties included approximately 18,000 net acres with production at the time of sale of approximately 1,600 Boe/d.

Sale of New Mexico Assets. In August 2011, the Company sold certain oil and natural gas properties in Lea County and Eddy County, New Mexico, for $199.0 million, net of fees and post-closing adjustments. The divested properties included approximately 23,000 net acres with production at the time of sale of approximately 1,500 Boe/d.

Sale of Working Interest in Mississippian Properties. In September 2011, the Company sold to Atinum MidCon I, LLC (Atinum) a 13.2% non-operated working interest, equal to approximately 113,000 net acres, in the Mississippian formation in northern Oklahoma and southern Kansas for approximately $287.0 million, subject to post-closing adjustments. Atinum will fund a drilling carry of 13.2% of SandRidge s share of drilling and completion costs for wells drilled within an area of mutual interest up to $250.0 million, which is expected to occur over a three-year period.

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Sale of East Texas Properties. In November 2011, the Company sold its east Texas natural gas properties in Gregg, Harrison, Rusk and Panola counties for $231.0 million, subject to post-closing adjustments. The divested properties included over 23,000 net acres with production at the time of sale of approximately 4,100 Boe/d.

Royalty Trust Offerings

SandRidge Mississippian Trust I. In April 2011, SandRidge Mississippian Trust I (the Mississippian Trust I) completed its initial public offering of 17,250,000 common units representing approximately 61.6% of the beneficial interest in the Mississippian Trust I. Net proceeds to the Mississippian Trust I, after certain offering expenses, were $336.9 million. Concurrent with the closing of the offering, the Company conveyed certain royalty interests to the Mississippian Trust I in exchange for the net proceeds of the offering and 10,750,000 units, representing approximately 38.4% of the beneficial interest, in the Mississippian Trust I.

The Company and one of its wholly owned subsidiaries entered into a development agreement with the Mississippian Trust I that obligates the Company to drill, or cause to be drilled, a specified number of wells within an area of mutual interest, which are also subject to the royalty interest granted to the Mississippian Trust I, within a specified period. One of the Company s wholly owned subsidiaries also granted a lien to the Mississippian Trust I on the Company s interests in the properties where the development wells will be drilled in order to secure the estimated amount of the drilling costs for the wells.

The Company has determined that the Mississippian Trust I is a variable interest entity (VIE) and the Company is its primary beneficiary. As such, the Company began consolidating the activities of the Mississippian Trust I into its results of operations in April 2011. See Note 3 to the Company s consolidated financial statements included in Item 8 of this report for further discussion regarding the Company s consolidation of the Mississippian Trust I.

SandRidge Permian Trust. In August 2011, SandRidge Permian Trust (the Permian Trust) completed its initial public offering of 34,500,000 common units representing approximately 65.7% of the beneficial interest in the Permian Trust. Net proceeds to the Permian Trust, after certain offering expenses, were $580.6 million. Concurrent with the closing, the Company conveyed certain royalty interests to the Permian Trust in exchange for the net proceeds of the offering and 18,000,000 units, representing approximately 34.3% of the beneficial interest in the Permian Trust.

The Company and one of its wholly owned subsidiaries entered into a development agreement with the Permian Trust that obligates the Company to drill, or cause to be drilled, a specified number of wells within an area of mutual interest, which are also subject to the royalty interest granted to the Permian Trust, within a specified period. One of the Company s wholly owned subsidiaries also granted a lien to the Permian Trust on the Company s interests in the properties where the development wells will be drilled in order to secure the estimated amount of the drilling costs for the wells.

The Company has determined that the Permian Trust is a VIE and the Company is its primary beneficiary. As such, the Company began consolidating the activities of the Permian Trust into its results of operations in August 2011. See Note 3 to the Company s consolidated financial statements included in Item 8 of this report for further discussion regarding the Company s consolidation of the Permian Trust.

Debt Transactions

Issuance of 7.5% Senior Notes. In March 2011, the Company issued $900.0 million of unsecured 7.5% Senior Notes due 2021 (the 7.5% Senior Notes) pursuant to Rule 144A and Regulation S under the Securities Act. Net proceeds from the offering were used to fund the tender offer for and the redemption of the 8.625% Senior Notes due 2015 (the 8.625% Senior Notes), discussed below. As a result of this issuance, the Company s borrowing base under its senior credit facility was reduced from $850.0 million to $790.0 million.

Repurchase and Redemption of 8.625% Senior Notes. In March 2011, the Company purchased approximately 94.5%, or $614.2 million, of the 8.625% Senior Notes, originally issued in an aggregate principal amount of $650.0 million, through a cash tender offer. In April 2011, the Company redeemed the remaining outstanding $35.8 million aggregate principal amount of the 8.625% Senior Notes.

2012 DEVELOPMENTS

Sale of Working Interest in Mississippian Properties. In January 2012, SandRidge sold to Repsol E&P USA Inc. (Repsol) an approximate 25% non-operated working interest, equal to approximately 250,000 net acres, in the Mississippian formation in western Kansas, and an approximate 16% non-operated working interest, equal to approximately 114,000 net acres and a proportionate share of existing salt water disposal facilities in the Mississippian formation in northern Oklahoma and southern Kansas for approximately $272.5 million. In addition, Repsol will pay for its working interest share of development costs and will fund a portion of SandRidge s development costs equal to 200% of Repsol s working interest for wells within an area of mutual interest up to $750.0 million, which is expected to occur over a five-year period.

Proposed Royalty Trust Offering. On January 5, 2012, the Company and SandRidge Mississippian Trust II (the Mississippian Trust II), a newly formed Delaware statutory trust, filed a joint registration statement with the SEC for the proposed public offering of common units representing beneficial interests in the Mississippian Trust II. In connection with the offering, the Company intends to convey certain royalty interests to the Mississippian Trust II in exchange for the net proceeds of the offering and units, representing a beneficial interest in the Mississippian Trust II. The royalty interests to be conveyed to the Mississippian Trust II are in certain existing wells and wells to be drilled on certain oil and natural gas properties leased by the Company in the Mississippian formation in northern Oklahoma and Kansas. There can be no assurance that the Company will complete this transaction, as it is subject to market conditions and other uncertainties, as well as completion of the SEC review process. If the transaction is completed, the Company intends to use the net proceeds from the offering for general corporate purposes, including to fund its 2012 capital expenditure program.

Dynamic Acquisition. On February 1, 2012, the Company entered into an agreement to acquire Dynamic, an oil and natural gas exploration, development and production company with operations in the Gulf of Mexico for approximately $1.3 billion, comprised of approximately $680.0 million in cash and approximately 74 million shares of the Company s common stock. The acquisition, which is expected to close in the second quarter of 2012, is subject to customary closing conditions, including compliance with the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act. The Company has secured $725.0 million in committed financing for the acquisition that it may use to fund the cash portion of the acquisition.

Sale of Trust Units. On February 21, 2012, the Company sold approximately 1.6 million of its Mississippian Trust I common units in a transaction exempt from registration under Rule 144 under the Securities Act for proceeds of $52.3 million.

BUSINESS SEGMENTS AND PRIMARY OPERATIONS

The Company operates in three business segments: exploration and production, drilling and oil field services and midstream gas services. Financial information regarding each segment is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations. The information below includes the activities of the Mississippian Trust I and the Permian Trust, including amounts attributable to noncontrolling interest, all of which are included in the exploration and production segment.

Exploration and Production

The Company explores for, develops and produces oil and natural gas reserves, with a primary focus on increasing its reserves and production in the Mid-Continent and Permian Basin. The Company operates substantially all of its wells in these areas and also operates leasehold positions in the WTO, Gulf Coast and Gulf of Mexico.

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The following table presents certain information concerning the Company s exploration and production business as of December 31, 2011, unless otherwise noted.

Area	Estimated Net Proved Reserves (MMBoe)	PV-10 (in millions)(1)	Daily Production (MBoe/d)(2)	Reserves/ Production (Years)(3)	Gross Acreage	Net Acreage
Mid-Continent	145.5	$ 2,265.1	19.3	20.7	1,698,222	1,332,292
Permian Basin	187.0	3,939.2	30.4	16.8	318,754	224,902
WTO	102.5	131.9	10.6	26.5	544,218	419,153
Gulf Coast	5.8	83.1	2.2	7.3	65,828	34,160
Gulf of Mexico	6.1	44.8	1.3	12.9	56,511	27,772
Other	23.7	411.8	0.8	76.1	11,326	9,139
Total	470.6	$ 6,875.9	64.6	19.9	2,694,859	2,047,418

(1) PV-10 generally differs from the Standardized Measure of Discounted Net Cash Flows (Standardized Measure) because it does not include the effects of income taxes on future net revenues. For a reconciliation of PV-10 to Standardized Measure, see Proved Reserves. The Company s total Standardized Measure was $5.2 billion at December 31, 2011.

(2) Average daily net production for the month of December 2011.

(3) Estimated net proved reserves as of December 31, 2011 divided by production for the year ended December 31, 2011.

Properties

Mid-Continent

The Company held interests in approximately 1,698,000 gross (1,332,000 net) leasehold and option acres in Oklahoma and Kansas at December 31, 2011. Associated proved reserves at December 31, 2011 totaled 145.5 MMBoe, 41% of which were proved developed reserves, based on estimates prepared by Netherland Sewell & Associates, Inc. (Netherland Sewell) and the Company s internal engineers. The Company s interests in the Mid-Continent as of December 31, 2011 included 836 gross (408.8 net) producing wells with an average working interest of 49.5%. Average daily net production from the Mid-Continent area was approximately 19.3 MBoe for the month of December 2011. The Company had 21 rigs operating in the Mid-Continent as of December 31, 2011, three of which were drilling saltwater disposal wells, and drilled 167 horizontal wells during 2011.

Mississippian Formation. The Company s primary focus within the Mid-Continent area is the Mississippian formation, which is an expansive carbonate hydrocarbon system located on the Anadarko Shelf in northern Oklahoma and Kansas. The top of this formation is encountered between approximately 4,000 and 7,000 feet and lies stratigraphically between the Pennsylvanian-aged Morrow formation and the Devonian-aged Woodford Shale formation. The Mississippian formation can reach 1,000 feet in gross thickness and the targeted porosity zone is between 50 and 100 feet in thickness. The formation s geology is well understood as a result of the thousands of vertical wells drilled and produced there since the 1940s. At December 31, 2011, the Company had approximately 1,692,000 gross (1,329,000 net) acres under lease, of which approximately 49,600 gross (42,000 net) acres were included in the Mississippian Trust I s area of mutual interest.

In 2007, the application of horizontal cased-hole drilling and multi-stage hydraulic fracturing treatments demonstrated the potential for extracting significant additional quantities of oil and natural gas from the formation. Since the beginning of 2009, there have been over 400 horizontal wells drilled in the Mississippian formation in northern Oklahoma and Kansas, including 205 drilled by the Company as of December 31, 2011. From December 31, 2010 to December 31, 2011, the number of the Company s producing horizontal wells in the Mississippian formation increased from 44 to 174. As of December 31, 2011, there were approximately

43 horizontal rigs drilling in the formation, with 18 of those rigs drilling for the Company. The Company drilled a total of 167 horizontal wells in the Mississippian formation during 2011, including 48 wells subject to the Mississippian Trust I s royalty interest.

Permian Basin

The Permian Basin extends throughout southwestern Texas and southeastern New Mexico over an area approximately 250 miles wide and 300 miles long. It is one of the largest, most active and longest-producing oil basins in the United States. In 2010, production from the Permian Basin accounted for approximately 17% of total United States crude oil production, making this basin the second largest oil producing area in the continental United States after the Gulf of Mexico. The Permian Basin has been producing oil for over 80 years resulting in cumulative production of approximately 29 billion barrels.

The Company held interests in approximately 319,000 gross (225,000 net) leasehold acres in the Permian Basin at December 31, 2011, of which approximately 17,500 gross (16,000 net) acres were included in the Permian Trust s area of mutual interest. Associated proved reserves at December 31, 2011 were 187.0 MMBoe, 58% of which were proved developed reserves, based on estimates provided by independent oil and natural gas consulting firms, Netherland Sewell and Lee Keeling and Associates, Inc. (Lee Keeling). The Company s interests in the Permian Basin as of December 31, 2011 included 3,125 gross (2,976.0 net) producing wells with an average working interest of 96.2%. The Company s average daily net production was approximately 30.4 MBoe for the month of December 2011. The Company had 15 rigs operating in the Permian Basin as of December 31, 2011 and drilled 803 wells in this area during 2011, of which 195 were subject to the Permian Trust s royalty interest.

Central Basin Platform. The Company significantly expanded its holdings in the Permian Basin, specifically the Central Basin Platform (CBP) where it drilled all of its Permian Basin wells in 2011, through the Forest Acquisition in December 2009 and the Arena Acquisition in July 2010. These acquisitions added significant Permian Basin production from the Midland and Delaware Basins in Texas as well as the Northwest Shelf in New Mexico. Reserves and associated production in this area are predominantly oil. The primary reservoirs in the CBP are the dolomites and limestones of the Grayburg-San Andres and Clear Fork formations. To date, the San Andres and Clear Fork zones have produced more than 4.0 and 1.8 billion barrels of oil, respectively, with well depths typically ranging from 4,500 to 7,500 feet. The Company s properties in the CBP are positioned for infill and step-out drilling to target these reservoirs in several of the major CBP fields, such as the Fuhrman-Mascho, Goldsmith, Fullerton, Tex-Mex, Brooklaw and Robertson Fields.

West Texas Overthrust

The Company has drilled and developed natural gas in the WTO since 1986. This area is located in Pecos and Terrell counties in west Texas and is associated with the Marathon-Ouachita fold and thrust belt that extends east-northeast across the United States into the Appalachian Mountain Region. The primary reservoir rocks in the WTO range in depth from 2,000 to 17,000 feet and range in geologic age from the Permian to the Devonian. The imbricate stacking of these conventional gas-prone reservoirs provides for multi-pay exploration and development opportunities. Despite these opportunities, the WTO has historically been under-explored. The high CO_2 content of the natural gas, lack of infrastructure in the region and historical limitations of conventional subsurface geological and geophysical methods have combined to discourage exploration of the area. Additionally, low natural gas prices continue to limit activity in this area.

The Company held interests in approximately 544,000 gross (419,000 net) leasehold acres in the WTO at December 31, 2011. Associated proved reserves at December 31, 2011 were 102.5 MMBoe, 45% of which were proved developed reserves, based on estimates provided by Netherland Sewell. The Company s interests in the WTO as of December 31, 2011 included 880 gross (745.4 net) producing wells with an average working interest of 95.3%. The Company s average daily net production was approximately 10.6 MBoe for the month of December 2011.

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Century Plant. In order to facilitate expansion of CO_2 treating capacity in the WTO, the Company is constructing a CO_2 treatment plant in Pecos County, Texas (the Century Plant), and associated compression and pipeline facilities pursuant to an agreement with Occidental Petroleum Corporation (Occidental). Under the terms of the agreement, Occidental will pay the Company a minimum of 100% of the contract price, or $800.0 million, plus any subsequently agreed-upon revisions, through periodic cost reimbursements based upon the percentage of the project completed by the Company. The Company expects to complete the Century Plant in two phases. Phase I is in the commissioning process with completion and transfer of title to Occidental expected in early 2012, and Phase II is under construction and expected to be completed in 2012. Upon completion of each phase of the Century Plant, Occidental will take ownership of the related assets and will operate the Century Plant for the purpose of separating and removing CO_2 from delivered natural gas. Contract losses on the construction of the Century Plant are recorded as development costs within the Company s oil and natural gas properties as part of the full cost pool, when it is determined that a loss will be incurred. Contract gains, if any, are recorded at the end of the project. As of December 31, 2011, the Company had recorded additions of $130.0 million to its oil and natural gas properties for the estimated loss identified based on current projections of the costs to be incurred in excess of contract amounts.

Pursuant to a 30-year treating agreement executed simultaneously with the construction agreement to build the Century Plant, Occidental will remove CO_2 from the Company s delivered natural gas production volumes. Under this agreement, the Company will be required to deliver certain CO_2 volumes annually once Occidental takes title of Phase I, and will have to compensate Occidental to the extent such requirements are not met. Based upon current natural gas production levels, the Company expects to accrue between approximately $17.0 million and $21.0 million during the year ending December 31, 2012 for amounts related to the Company s shortfall in meeting its delivery obligations based on the projected completion date of Phase I of the Century Plant. Due to the sensitivity of natural gas production to prevailing market prices, the Company is unable to estimate additional amounts it may be required to pay under this agreement in subsequent periods. The Company will retain all methane gas from the natural gas it delivers to the Century Plant.

Gulf Coast

As of December 31, 2011, the Company owned oil and natural gas interests in approximately 66,000 gross (34,000 net) acres in the Gulf Coast area, which encompasses the large coastal plain from the southernmost tip of Texas through the southern portion of Louisiana. As of December 31, 2011, the Company s estimated net proved reserves in the Gulf Coast area was 5.8 MMBoe with average daily net production of approximately 2.2 MBoe for the month of December 2011.

Gulf of Mexico

As of December 31, 2011, the Company owned oil and natural gas interests in approximately 57,000 gross (28,000 net) acres in state and federal waters off the coasts of Texas and Louisiana. As of December 31, 2011, the Company s estimated net proved reserves in the Gulf of Mexico was 6.1 MMBoe with average daily net production of approximately 1.3 MBoe for the month of December 2011. The Company s operations in the Gulf of Mexico extend from the coast to more than 100 miles offshore and occur in waters ranging from 30 to 1,100 feet.

Tertiary Oil Recovery

The Company currently operates three enhanced recovery projects, consisting of one active CO_2 flood and two waterfloods in which CO_2 pilot projects are currently under development. All three floods are located in the Permian Basin area of west Texas. The Wellman Unit, located in Terry County, is an active CO_2 flood in which CO_2 injection was re-initiated in November 2005. The two prospective CO_2 pilot waterfloods are the George Allen Unit and the South Mallet Unit, located in Gaines and Hockley Counties. Injection is expected to begin into the George Allen pilot in 2012 and into the South Mallet pilot in 2013. The three enhanced recovery projects had average daily net production of approximately 0.8 MBoe for the month of December 2011 and have

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produced a total of 113.4 MMBoe to date. As of December 31, 2011, net proved reserves attributable to the three projects were 23.6 MMBoe. Expansion opportunities exist in all three projects and will be evaluated based on early performance results.

Proved Reserves

The oil and natural gas reserves in this report are based on reserve reports, substantially all of which were prepared by independent petroleum engineers. The process to review and estimate the reserves begins with one of the Company s staff reservoir engineers collecting and verifying all pertinent data, including but not limited to well test data, production data, historical pricing, cost information, property ownership interests, reservoir data, geosciences data and non-confidential production data of relevant wells and operations in the area. This data was reviewed by various levels of management for accuracy, before consultation with independent petroleum engineers. Such consultation includes review of properties, assumptions and any new data available. Internal reserves estimates and methodologies were compared to those prepared by independent petroleum engineers to test the reserves estimates and conclusions before the reserves estimates were included in this report.

SandRidge s Executive Vice President Reservoir Engineering is the technical person primarily responsible for overseeing the preparation of the Company s reserves estimates. He has a Bachelor of Science degree in Mechanical Engineering with over 30 years of practical industry experience, including over 25 years of estimating and evaluating reserve information. In addition, the Company s Executive Vice President Reservoir Engineering has been a certified professional engineer in the state of Oklahoma since 1988 and a member of the Society of Petroleum Engineers since 1980.

SandRidge s Reservoir Engineering Department continually monitors asset performance, making reserves estimate adjustments, as necessary, to ensure the most current reservoir information is reflected in reserves estimates. Reserve information includes production histories as well as other geologic, economic, ownership and engineering data. The department currently has a total of 19 full-time employees, comprised of eight degreed engineers and 11 engineering analysts/technicians with a minimum of a four-year degree in mathematics, economics, finance or other business or science field.

The Company maintains a continuous education program for its engineers and technicians on new technologies and industry advancements and also offers refresher training on basic skill sets.

In order to ensure the reliability of reserves estimates, internal controls observed within the reserve estimation process include:

- No employee s compensation is tied to the amount of reserves booked.

- Reserves estimates are prepared by experienced reservoir engineers or under their direct supervision.

- The Reservoir Engineering Department reports directly to the Company s President, independently from all of the Company s operating divisions.

- The Reservoir Engineering Department follows comprehensive SEC-compliant internal policies to determine and report proved reserves including:

  - confirming that reserves estimates include all properties owned and are based upon proper working and net revenue interests;