SANDRIDGE ENERGY INC
Form 10-K
February 27, 2012
Table of Contents

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 incorporation or organization)	**(I.R.S. Employer 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.

Table of Contents

SANDRIDGE ENERGY, INC.

2011 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Table of Contents

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;

Table of Contents

- 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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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

Table of Contents

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;
  - reviewing and using in the estimation process data provided by other departments within the Company such as Accounting; and
  - comparing and reconciling internally generated reserves estimates to those prepared by third parties.

8

Table of Contents

Each quarter, the Executive Vice President Reservoir Engineering presents the status of the Company s reserves to a committee of executives, which subsequently approves all changes. In the event the quarterly updated reserves estimates are disclosed, the aforementioned review process is evidenced by signatures from the Executive Vice President Reservoir Engineering and the Chief Financial Officer.

The Reservoir Engineering Department works closely with its independent petroleum consultants at each fiscal year end to ensure the integrity, accuracy and timeliness of annually developed independent reserves estimates. These independently developed reserves estimates are adopted as the Company s corporate reserves and are reviewed by the Audit Committee, as well as the Chief Financial Officer, Senior Vice President of Accounting, Vice President of Internal Audit, Vice President of Financial Reporting, Treasurer and General Counsel. In addition to reviewing the independently developed reserve reports, the Audit Committee annually interviews the third-party engineer at Netherland Sewell who is primarily responsible for the reserve report. The Audit Committee also periodically interviews the other independent petroleum consultants used to prepare estimates of proved reserves.

The table below shows the percentage of the Company s total proved reserves for which each of the independent petroleum consultants prepared reports of estimated proved reserves of oil and natural gas for the years shown.

		December 31,	
	2011	2010	2009
Netherland, Sewell & Associates, Inc.	80.5%	71.9%	51.7%
Lee Keeling and Associates, Inc.	15.6%	20.3%	33.7%
DeGolyer and MacNaughton		4.3%	9.6%
Total	96.1%	96.5%	95.0%

The remaining 3.9%, 3.5% and 5.0% of the Company s estimated proved reserves as of December 31, 2011, 2010 and 2009, respectively, were based on internally prepared estimates.

Copies of the reports issued by the Company s independent petroleum consultants with respect to the Company s oil and natural gas reserves as of December 31, 2011 are filed with this report as Exhibits 99.1 99.2. The geographic location of the Company s estimated proved reserves prepared by each of the independent petroleum consultants as of December 31, 2011 is presented below.

	Geographic Locations by Area by State
Netherland, Sewell & Associates, Inc.	Permian Basin KS, OK, TX Mid-Continent KS, OK WTO TX Gulf Coast LA, TX Gulf of Mexico Tertiary recovery TX Other AL, MS, ND
Lee Keeling and Associates, Inc.	Permian Basin NM, TX

The qualifications of the technical person at each of these firms primarily responsible for overseeing the firm s preparation of the Company s reserves estimates included in this report are set forth below. These qualifications meet or exceed the Society of Petroleum Engineers standard requirements to be a professionally qualified Reserve Estimator and Auditor.

Netherland, Sewell & Associates, Inc.

more than 30 years of practical experience in petroleum engineering and almost 15 years estimating and evaluating reserve information;

Table of Contents

a registered professional engineer in the states of Texas, Louisiana and Wyoming; and

a Bachelor of Science Degree in Civil Engineering and Masters in Business Administration.

Lee Keeling and Associates, Inc.

57 years of practical experience in petroleum engineering and more than 48 years estimating and evaluating reserve information;

a registered professional engineer in the state of Oklahoma; and

a Bachelor of Science Degree in Petroleum Engineering.

DeGolyer and MacNaughton

35 years of experience in oil and gas reservoir studies and reserve evaluations at the time of its most recent report;

a registered professional engineer in the state of Texas; and

a Bachelor of Science Degree in Petroleum Engineering.

The following estimates of proved oil and natural gas reserves are based on reserve reports as of December 31, 2011, 2010 and 2009, substantially all of which were prepared by independent petroleum engineers. The estimates include reserves attributable to the Mississippian Trust I and the Permian Trust, including amounts associated with noncontrolling interest. The PV-10 values shown in the table below are not intended to represent the current market value of the Company s estimated oil and natural gas reserves as of the dates shown. The reserve reports were based on the Company s drilling schedule and the average price during the 12-month period ended December 31, 2011, 2010 and 2009, using first-day-of-the-month prices for each month. The Company estimates that approximately 73% of its current proved undeveloped reserves will be developed by 2013 and all of its current proved undeveloped reserves will be developed by 2014. See Critical Accounting Policies and Estimates in Item 7 of this report for further discussion of uncertainties inherent to the reserves estimates. See Note 25 in Item 8 of this report for reserve and standardized measure of discounted net cash flows amounts attributable to noncontrolling interests.

		December 31,	
	2011	**2010**	**2009**
Estimated Proved Reserves(1)			
Developed			
Oil (MMBbls)	118.7	92.0	38.3
Natural gas (Bcf)(2)	670.4	784.3	592.8
Total proved developed (MMBoe)	230.4	222.7	137.1
Undeveloped			
Oil (MMBbls)	126.1	160.1	67.0
Natural gas (Bcf)(2)	684.7	978.4	87.3
Total proved undeveloped (MMBoe)	240.2	323.2	81.6
Total Proved			
Oil (MMBbls)	244.8	252.1	105.3
Natural gas (Bcf)(2)	1,355.1	1,762.7	680.1

Total proved (MMBoe)(3)	470.6	545.9	218.7
PV-10 (in millions)(4)	$ 6,875.9	$ 4,509.2	$ 1,561.0
Standardized Measure of Discounted Net Cash Flows (in millions)(3)(5)	$ 5,216.3	$ 3,683.5	$ 1,561.0

(1) The Company s estimated proved reserves and the future net revenues, PV-10 and Standardized Measure were determined using a 12-month average price for oil and natural gas. The prices used in the Company s

external and internal reserve reports yield weighted average wellhead prices, which are based on index prices and adjusted for transportation and regional price differentials. The index prices and the equivalent weighted average wellhead prices are shown in the table below.

	Weighted average wellhead prices		Index prices	
	Oil (per Bbl)	Natural gas (per Mcf)	Oil (per Bbl)	Natural gas (per Mcf)
December 31, 2011	$ 85.77	$ 4.06	$ 92.71	$ 4.12
December 31, 2010	$ 66.93	$ 3.80	$ 75.96	$ 4.38
December 31, 2009	$ 49.98	$ 3.41	$ 57.65	$ 3.87

(2) The Company s production from the WTO contains natural gas that is high in CO_2 content. These amounts are net of CO_2 volumes that exceed pipeline quality specifications.

(3) At December 31, 2011, estimated total proved reserves and Standardized Measure attributable to noncontrolling interests were approximately 26.3 MMBoe and approximately $932.8 million, respectively. There were no proved reserves or Standardized Measure attributable to noncontrolling interest at December 31, 2010 or 2009.

(4) PV-10 is a non-GAAP financial measure and represents the present value of estimated future cash inflows from proved oil and natural gas reserves, less future development and production costs, discounted at 10% per annum to reflect timing of future cash flows and using 12-month average prices for the years ended December 31, 2011, 2010 and 2009. PV-10 differs from Standardized Measure because it does not include the effects of income taxes on future net revenues. Due to the full valuation allowance on the Company s net deferred tax asset at December 31, 2009 that reduced to zero a tax benefit that otherwise would result from the tax effects of PV-10, there was no effect of income taxes on Standardized Measure at December 31, 2009. Neither PV-10 nor Standardized Measure represents an estimate of fair market value of the Company s oil and natural gas properties. PV-10 is used by the industry and by the Company s management as an arbitrary reserve asset value measure to compare against past reserve bases and the reserve bases of other business entities that are not dependent on the taxpaying status of the entity. The following table provides a reconciliation of the Company s Standardized Measure to PV-10:

	2011	December 31, 2010 (In millions)	2009
Standardized Measure of Discounted Net Cash Flows	$ 5,216.3	$ 3,683.5	$ 1,561.0
Present value of future income tax discounted at 10%	1,659.6	825.7	
PV-10	$ 6,875.9	$ 4,509.2	$ 1,561.0

(5) Standardized Measure represents the present value of estimated future cash inflows from proved oil and natural gas reserves, less future development and production costs, and income tax expenses, discounted at 10% per annum to reflect timing of future cash flows and using the same pricing assumptions used to calculate PV-10. Standardized Measure differs from PV-10 as Standardized Measure includes the effect of future income taxes. Due to the full valuation allowance on the Company s net deferred tax asset at December 31, 2009 that reduced to zero a tax benefit that otherwise would result from the tax effects of PV-10, there was no effect of income taxes on Standardized Measure at December 31, 2009.

Technologies. Under SEC rules, proved reserves are those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from known reservoirs from a given date forward, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time. The term reasonable certainty implies a high degree of confidence that the quantities of oil and/or natural gas actually

11

recovered will equal or exceed the estimate. Reasonable certainty can be established using techniques that have been proved effective by actual production from projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology that establishes reasonable certainty. Reliable technology is a grouping of one or more technologies (including computational methods) that have been field tested and have been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

The area of a reservoir considered proved includes (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or natural gas on the basis of available geoscience and engineering data. In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering or performance data and reliable technology establish a lower contact with reasonable certainty.

Where direct observation from well penetrations has defined a highest known oil elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.

Reserves that can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir, or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. In determining the amount of proved reserves, the price used must be the average price during the 12-month period prior to the ending date of the period covered by the reserve report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

The estimates of proved developed reserves included in the reserve report were prepared using decline curve analysis to determine the reserves of individual producing wells. After estimating the reserves of each proved developed well, it was determined that a reasonable level of certainty exists with respect to the reserves that can be expected from close offset undeveloped wells in the field.

Proved reserves in the Mid-Continent, primarily the Mississippian formation, increased from 63.0 MMBoe at December 31, 2010 to 145.5 MMBoe at December 31, 2011, which comprises a significant portion of the additions to the Company s proved reserves. For the Company s Mississippian formation development, continuity of the formation across the development area was established by reviewing electric well logs, geologically mapping the analogous reservoir and reviewing extensive production data from more than 1,400 vertical and 178 horizontal wells. The reserves attributable to producing wells and the continuity of the formation over the development area further supports proved undeveloped classification within close proximity to the producing wells. Data from both the Company and offset operators with which it has exchanged technical data demonstrate a consistency in this formation and the in situ fluids over an area much larger than the development area. In addition, direct measurement from other producing wells was also used to confirm consistency in reservoir properties such as porosity, thickness and stratigraphic conformity. While vertical well control exists across all of the development area most of the existing producing horizontal wells were drilled without benefit of a direct offset producing lateral section. These wells all encountered proven reserves in the Mississippian formation. The proved undeveloped locations within the development area are generally direct parallel offsets to the horizontal wells drilled and producing to date.

Proved Undeveloped Reserves. During 2011, the Company drilled 855 wells and approximately $817.0 million of its drilling capital expenditures were used to convert approximately 50.3 MMBoe of proved undeveloped reserves to proved developed reserves. At December 31, 2011, 763 of these wells were classified as proved developed producing properties with the remaining wells still in progress. During 2010, the Company drilled 424 wells and approximately $480.7 million of its drilling capital expenditures were used to convert approximately 37.4 MMBoe of proved undeveloped reserves to proved developed reserves. At December 31, 2010, 392 of these wells were classified as proved developed producing properties with the remaining wells still in progress. During 2009, the Company drilled 104 wells and approximately $128.6 million of its drilling capital expenditures were used to convert approximately 8.7 MMBoe of proved undeveloped reserves to proved developed reserves. At December 31, 2009, 92 of these wells were classified as proved developed producing properties with the remaining wells still in progress.

Excluding asset sales, the Company recognized a net addition to oil and natural gas reserves associated with proved undeveloped properties in 2011. Additional reserves attributable to extensions and discoveries, primarily in the Permian Basin and Mid-Continent areas as a result of successful drilling, more than offset downward revisions of reserve quantities from the Piñon Field as a result of lower natural gas index prices. The 12-month average natural gas index price of $4.38 per Mcf for 2010 decreased to $4.12 per Mcf for 2011. For additional information, see Note 25 to the Company s consolidated financial statements in Item 8 of this report.

In 2010, the Company recognized additional oil and natural gas reserves attributable to extensions and discoveries as a result of successful drilling in the Permian Basin and Mid-Continent areas. The 12-month average natural gas index price of $4.38 per Mcf used in the estimation of natural gas reserves as of December 31, 2010, compared to the 12-month average natural gas index price of $3.87 per Mcf for 2009, resulted in upward revisions of quantities associated with the Company s proved undeveloped properties. There were no downward revisions as a result of the 12-month average oil index price used in the estimation of reserves as of December 31, 2010.

The 12-month average natural gas index price of $3.87 per Mcf used in the estimation of reserves as of December 31, 2009 resulted in downward revisions of quantities associated with the Company s proved undeveloped properties as a significant number of properties generated no PV-10 value resulting in the elimination of associated reserve quantities and a shortening of the productive lives of certain proved properties that became uneconomic earlier in their lives with the use of lower natural gas prices compared to prices used in the estimation of reserves in previous periods.

Fields. Three fields, the Mississippi Lime Horizontal, the Fuhrman-Mascho and the Piñon, each contained more than 15% of the Company s total proved reserves at December 31, 2011. These fields are described further below.

Mississippi Lime Horizontal Field. The Mississippi Lime Horizontal Field is located on the Anadarko Shelf in northern Oklahoma and Kansas and produces from the Mississippian formation. The Company has estimated proved oil and natural gas reserves in the Mississippi Lime Horizontal Field of 128 MMBoe as of December 31, 2011. The Company s interests in the Mississippi Lime Horizontal Field as of December 31, 2011 included 200 gross (147.9 net) producing wells and a 73.9% average working interest in the producing area.

Fuhrman-Mascho Field. The Fuhrman-Mascho Field is located near the center of the CBP in the Permian Basin and produces from the Grayburg-San Andres formation from average depths of approximately 4,000 to 5,000 feet. The Fuhrman-Mascho Field is the fifth largest producing field in the Permian Basin and has produced approximately 142 MMBoe since its discovery in 1930. The Company has estimated proved oil and natural gas reserves in the Fuhrman-Mascho Field of 89 MMBoe as of December 31, 2011. The Company s interests in the Fuhrman-Mascho Field as of December 31, 2011 included 1,761 gross (1,709.9 net) producing wells and a 97.1% average working interest in the producing area.

Piñon Field. The Piñon Field lies along the leading edge of the WTO in Pecos County, Texas. The primary reservoirs are the Tesnus sands (depths ranging from 3,500 to 5,000 feet), the Warwick Caballos chert (depths ranging from 5,000 to 8,000 feet) and the Dugout Creek Caballos chert (depths ranging from 7,000 to 10,000 feet). As of December 31, 2011, the Company s estimated proved oil and natural gas reserves in the Piñon Field were 102.4 MMBoe. The Company s interests in the Piñon Field as of December 31, 2011 included 870 gross (738.1 net) producing wells and a 95.6% average working interest in the producing area.

The following table presents oil and natural gas production for the years presented, for fields containing more than 15% of the Company s total proved reserves in that year.

	2011		
	Oil (MBbls)	Natural Gas (Bcf)	Total (MBoe)
Field			
Mississippi Lime Horizontal	1,209.5	8.3	2,598.2
Fuhrman-Mascho	3,768.5	1.6	4,040.7
Piñon	41.0	28.2	4,748.7

	2010		
	Oil (MBbls)	Natural Gas (Bcf)	Total (MBoe)
Fuhrman-Mascho(1)	1,468.4	0.7	1,587.3
Piñon	60.8	40.3	6,779.9

	2009		
	Oil (MBbls)	Natural Gas (Bcf)	Total (MBoe)
Piñon	108.1	52.2	8,812.8

(1) Production is from date property was acquired, or July 16, 2010, through December 31, 2010.

Production and Price History

The following tables set forth information regarding the Company s net oil and natural gas production and certain price and cost information for each of the periods indicated. Because of the relatively high volumes of CO_2 produced with natural gas in certain areas of the WTO, the Company s reported sales and reserves volumes and the related unit prices received for natural gas in these areas are reported net of CO_2 volumes removed at the gas treating plants. The gas treating plant fees for removing CO_2 from the Company s natural gas that has high CO_2 content are included in the Company s lease operating expenses as processing, treating and gathering fees. All natural gas delivered to sales points with CO_2 levels within pipeline specifications is included in sales and reserves volumes.

	Year Ended December 31,		
	2011	2010	2009
Production Data			
Oil (MBbls)(1)	11,830	7,386	2,894
Natural gas (MMcf)	69,306	76,226	87,461
Total volumes (MBoe)	23,381	20,090	17,471
Average daily total volumes (MBoe/d)	64.1	55.0	47.9

Year Ended December 31,

	2011	2010	2009
Average Prices(2)			
Oil (per Bbl)(1)	$ 83.21	$ 66.89	$ 55.62
Natural gas (per Mcf)	$ 3.50	$ 3.68	$ 3.36
Total (per Boe)	$ 52.47	$ 38.56	$ 26.03

(1) Includes natural gas liquids.

(2) Prices represent actual average prices for the periods presented and do not include effects of derivative transactions.

	Year Ended December 31,		
	2011	2010	2009
Expenses per Boe			
Lease operating expenses			
Transportation	$ 0.71	$ 0.60	$ 0.66
Processing, treating and gathering(1)	1.59	1.92	2.17
Other lease operating expenses	10.73	8.54	6.29
Total lease operating expenses	$ 13.03	$ 11.06	$ 9.12
Production taxes(2)	$ 1.97	$ 1.45	$ 0.23
Ad valorem taxes	$ 0.78	$ 0.78	$ 0.60

(1) Includes costs attributable to gas treatment to remove CO_2 and other impurities from natural gas.
(2) Net of severance tax refunds.

Productive Wells

The following table sets forth the number of productive wells in which the Company owned a working interest at December 31, 2011. Productive wells consist of producing wells and wells capable of producing, including oil wells awaiting connection to production facilities and natural gas wells awaiting pipeline connections to commence deliveries. Gross wells are the total number of producing wells in which the Company has an interest and net wells are the sum of the Company s fractional working interests owned in gross wells.

	Oil		Natural Gas		Total	
	Gross	Net	Gross	Net	Gross	Net
Area						
Mid-Continent	291	187.1	545	221.8	836	408.8
Permian Basin	2,964	2,849.6	161	126.4	3,125	2,976.0
WTO	18	17.1	862	728.3	880	745.4
Gulf Coast	20	9.7	99	63.8	119	73.6
Gulf of Mexico	25	15.0	11	7.2	36	22.2
Other	47	40.9			47	40.9
Total	3,365	3,119.4	1,678	1,147.5	5,043	4,266.9

Developed and Undeveloped Acreage

The following table sets forth information regarding the Company s developed and undeveloped acreage at December 31, 2011:

	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
Area				
Mid-Continent	261,635	165,512	1,436,587	1,166,780
Permian Basin	133,276	109,136	185,478	115,766
WTO	36,569	33,969	507,649	385,184
Gulf Coast	50,936	29,761	14,892	4,399

Gulf of Mexico	56,511	27,772		
Other	10,966	8,940	360	199
Total	549,893	375,090	2,144,966	1,672,328

Table of Contents

Many of the leases comprising the undeveloped acreage set forth in the table above will expire at the end of their respective primary terms unless production from the leasehold acreage is established prior to such date, in which event the lease will remain in effect until production has ceased. The following table sets forth as of December 31, 2011 the expiration periods of the gross and net acres that are subject to leases in the undeveloped acreage summarized in the above table.

	Acres Expiring	
	Gross	Net
Twelve Months Ending		
December 31, 2012	340,929	208,368
December 31, 2013	747,801	603,372
December 31, 2014	769,542	635,004
December 31, 2015 and later	182,478	153,685
Other(1)	104,216	71,899
Total	2,144,966	1,672,328

(1) Leases remaining in effect until development efforts or production on the developed portion of the particular lease has ceased.
Included in the acreage expiring during the twelve months ending December 31, 2012 above are approximately 278,000 gross (174,000 net) acres in the WTO. The development of this acreage is largely dependent on natural gas prices during this period.

Drilling Activity

The following table sets forth information with respect to wells the Company completed during the periods indicated. The information presented is not necessarily indicative of future performance, and should not be interpreted to present any correlation between the number of productive wells drilled and quantities or economic value of reserves found. Productive wells are those that produce commercial quantities of hydrocarbons, regardless of whether they produce a reasonable rate of return. Gross wells refer to the total number of wells in which the Company had a working interest and net wells refer to gross wells multiplied by the Company s weighted average working interest. As of December 31, 2011, the Company had 116 gross (104.5 net) operated wells drilling, completing or awaiting completion.

	2011				2010				2009			
	Gross	Percent	Net	Percent	Gross	Percent	Net	Percent	Gross	Percent	Net	Percent
Completed Wells												
Development												
Productive	895	99.7%	850.0	99.7%	579	95.7%	538.8	95.7%	147	97.4%	117.2	97.9%
Dry	3	0.3%	2.9	0.3%	26	4.3%	24.3	4.3%	4	2.6%	2.5	2.1%
Total	898	100.0%	852.9	100.0%	605	100.0%	563.1	100.0%	151	100.0%	119.7	100.0%
Exploratory												
Productive	38	100.0%	33.7	100.0%	15	83.3%	14.9	83.2%	9	100.0%	8.6	100.0%
Dry		0.0%		0.0%	3	16.7%	3.0	16.8%				
Total	38	100.0%	33.7	100.0%	18	100.0%	17.9	100.0%	9	100.0%	8.6	100.0%
Total												
Productive	933	99.7%	883.7	99.7%	594	95.3%	553.7	95.3%	156	97.5%	125.8	98.1%
Dry	3	0.3%	2.9	0.3%	29	4.7%	27.3	4.7%	4	2.5%	2.5	1.9%
	936	100.0%	886.6	100.0%	623	100.0%	581.0	100.0%	160	100.0%	128.3	100.0%

Table of Contents

Drilling Rigs

The following table sets forth information with respect to the rigs operating on the Company s acreage by area as of December 31, 2011.

	Owned	Third-Party	Total
Mid-Continent	8	13	21
Permian Basin	12	3	15
Total	20	16	36

Marketing and Customers

The Company sells oil, natural gas and natural gas liquids to a variety of customers, including utilities, oil and natural gas companies and trading and energy marketing companies. The Company had two customers that individually accounted for more than 10% of its total revenue during 2011. See Note 23 to the Company s consolidated financial statements in Item 8 of this report for additional information on its major customers. The number of readily available purchasers for the Company s products makes it unlikely that the loss of a single customer in the areas in which the Company sells its products would materially affect its sales. The Company does not have any commitments to deliver fixed and determinable quantities of oil and natural gas in the future under existing sales contracts or agreements.

Title to Properties

As is customary in the oil and natural gas industry, the Company initially conducts a preliminary review of the title to its properties for which it does not have proved reserves. Prior to the commencement of drilling operations on those properties, the Company conducts a thorough title examination and performs curative work with respect to significant defects. To the extent drilling title opinions or other investigations reflect title defects on those properties, the Company is typically responsible for curing any title defects at its expense. The Company generally will not commence drilling operations on a property until it has cured any material title defects on such property. In addition, prior to completing an acquisition of producing oil and natural gas leases, the Company performs title reviews on the most significant leases, and depending on the materiality of properties, the Company may obtain a drilling title opinion or review previously obtained title opinions. To date, the Company has obtained drilling title opinions on substantially all of its producing properties and believes that it has good and defensible title to its producing properties. The Company s oil and natural gas properties are subject to customary royalty and other interests, liens for current taxes and other burdens, which the Company believes does not materially interfere with the use of or affect its carrying value of the properties.

Capital Expenditures

The Company s capital expenditures for 2011 related to its exploration and production segment were $1.7 billion, including amounts spent to develop wells in the Mississippian Trust I and the Permian Trust areas of mutual interest. The Company has budgeted approximately $1.5 billion in capital expenditures, excluding acquisitions and capital expenditures associated with properties to be acquired from Dynamic, in 2012 for its exploration and production segment.

Drilling and Oil Field Services

The drilling and related oil field services that the Company provides to its exploration and production business and to third parties are described below.

Drilling Operations

The Company drills for its own account primarily in west Texas, northwestern Oklahoma and Kansas through its drilling and oil field services subsidiary, Lariat. In addition, the Company also drills wells for other

Table of Contents

oil and natural gas companies, primarily in west Texas. The Company believes that drilling with its own rigs allows it to control costs and maintain operating flexibility. The Company s rig fleet is designed to drill in its specific areas of operation and has an average of over 800 horsepower and an average depth capacity of greater than 10,500 feet. As of December 31, 2011, the Company s drilling rig fleet consisted of 30 operational rigs with 20 of these rigs working on Company-owned properties in the Mid-Continent and Permian Basin.

Types of Drilling Contracts

The Company obtains its contracts for drilling oil and natural gas wells either through competitive bidding or through direct negotiations with customers. The Company s drilling contracts generally provide for compensation on a daywork or footage basis. The contract terms the Company offers generally depend on the complexity and risk of operations, the on-site drilling conditions, the type of equipment used, the anticipated duration of the work to be performed and prevailing market rates. For a discussion of these contracts, see Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Overview Drilling and Oil Field Services Segment in Item 7 of this report.

Oil Field Services

The Company s oil field services business conducts operations that, together with its drilling services, complement its exploration and production business. Oil field services include providing pulling units, trucking, rental tools, location and road construction and roustabout services to the Company as well as to third parties.

Customers

During 2011, the Company performed approximately 74% of its drilling and oil field services in support of its exploration and production business. For the years ended December 31, 2011, 2010 and 2009, the Company generated revenues of $103.3 million, $28.6 million and $23.6 million, respectively, for drilling and oil field services performed for third parties.

Capital Expenditures

The Company s capital expenditures for 2011 related to its drilling and oil field services were $25.7 million. The Company has budgeted approximately $20.0 million in capital expenditures in 2012 for its drilling and oil field services segment.

Midstream Gas Services

The Company provides gathering, compression and treating services of natural gas in west Texas. The Company s midstream operations and assets serve its exploration and production business as well as other oil and natural gas companies. The following tables set forth information regarding the Company s primary midstream assets as of December 31, 2011:

	Plant Capacity (MMcf/d)(1)	Average Utilization(2)	Third-Party Usage
Gas Treating Plants			
Pike s Peak	85	25%	<1%
Grey Ranch	220	26%	6%

(1) Based on a 69% CO_2 natural gas stream.
(2) Average utilization for the year ended December 31, 2011.

	CO_2 Compression Capacity (MMcf/d)	Average Utilization(1)
SandRidge CO_2 Compression Facilities		

Pike s Peak	36.0	29%
Mitchell	26.5	28