

SandRidge Permian Trust
Form 10-K
March 26, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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: 001-35274

SANDRIDGE PERMIAN TRUST

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

45-6276683
(I.R.S. Employer

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incorporation or organization)

Identification No.)

The Bank of New York Mellon

Trust Company, N.A., Trustee

919 Congress Avenue, Suite 500

Austin, Texas

(Address of principal executive offices)

78701

(Zip Code)

(855) 802-1092

(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 Units of Beneficial Interest	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 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

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 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 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 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

The aggregate market value of Common Units of Beneficial Interest in SandRidge Permian Trust held by non-affiliates on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter is not applicable as the registrant's equity was not traded as of June 30, 2011. As of March 19, 2012, 39,375,000 Common Units and 13,125,000 Subordinated Units of Beneficial Interest in SandRidge Permian Trust were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

Table of Contents

SANDRIDGE PERMIAN TRUST
2011 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

Item	Page
<u>PART I</u>	
1. <u>Business</u>	1
1A. <u>Risk Factors</u>	18
1B. <u>Unresolved Staff Comments</u>	33
2. <u>Properties</u>	33
3. <u>Legal Proceedings</u>	33
4. <u>Mine Safety Disclosures</u>	33
<u>PART II</u>	
5. <u>Market for Registrant's Common Equity, Related Unitholder Matters and Issuer Purchases of Equity Securities</u>	34
6. <u>Selected Financial Data</u>	34
7. <u>Trustee's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
8. <u>Financial Statements and Supplementary Data</u>	38
9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	39
9A. <u>Controls and Procedures</u>	39
9B. <u>Other Information</u>	39
<u>PART III</u>	
10. <u>Directors, Executive Officers and Corporate Governance</u>	40
11. <u>Executive Compensation</u>	40
12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	40
13. <u>Certain Relationships and Related Transactions and Director Independence</u>	41
14. <u>Principal Accounting Fees and Services</u>	41
<u>PART IV</u>	
15. <u>Exhibits and Financial Statement Schedules</u>	42

All references to we, us, our, or the Trust refer to SandRidge Permian Trust. References to SandRidge refer to SandRidge Energy, Inc. where the context requires, its subsidiaries. The royalty interests conveyed by SandRidge from its interests in certain properties in the Permian Basin in Andrews County, Texas and held by the Trust are referred to as the Royalty Interests. 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 14.

Table of Contents

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements about the Trust, SandRidge and other matters discussed herein that are subject to risks and uncertainties 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). All statements other than statements of historical fact included in this document, including, without limitation, statements under Trustee's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II and Risk Factors in Item 1A of Part I and elsewhere herein regarding the proved oil and natural gas reserves associated with the properties underlying the Royalty Interests, the Trust's or SandRidge's future financial position, business strategy, project costs and plans and objectives for future operations, information regarding target distributions, statements pertaining to future development activities and costs, statements regarding the number of development wells to be completed in future periods and information regarding production and reserve growth, are forward-looking statements. Actual outcomes and results may differ materially from those projected. Our forward-looking statements are generally accompanied by words such as estimate, target, project, predict, believe, expect, anticipate, could, may, foresee, plan, goal, should, intend or other words that convey the uncertainty of future events or outcomes. We have based our forward-looking statements on our current expectations and assumptions about future events. These statements are based on certain assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe 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 SandRidge's business or the Trust's results. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in such forward-looking statements. The Trust undertakes no obligation to publicly update or revise any forward-looking statements. Whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties, including the risk factors discussed in Item 1A of Part I of this report.

Table of Contents

PART I

Item 1. Business

General

SandRidge Permian Trust is a statutory trust formed on May 12, 2011 under the Delaware Statutory Trust Act pursuant to a trust agreement by and among SandRidge, as Trustor, The Bank of New York Mellon Trust Company, N.A., as Trustee (the Trustee), and The Corporation Trust Company, as Delaware Trustee (the Delaware Trustee). The Trust's affairs are managed by the Trustee, which maintains its offices at 919 Congress Avenue, Austin, Texas 78701. The Trust does not have any employees.

Copies of reports filed by the Trust under the Exchange Act are made available as soon as reasonably practicable after such materials are filed with or furnished to the Securities and Exchange Commission (SEC). Certain information concerning the Trust and Trust units as well as a link to the Trust's filings with the SEC may be obtained at the following web site location: www.businesswire.com/cnn/per.htm. Any materials filed with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or accessed via the SEC's website at www.sec.gov. The Trust will also provide electronic or paper copies of its filings free of charge upon request to the Trustee.

Formation and Structure. The Trust was created to acquire and hold the Royalty Interests for the benefit of Trust unitholders pursuant to a trust agreement dated May 12, 2011, by and among SandRidge, the Trustee and the Delaware Trustee (as subsequently amended and restated as of August 16, 2011). Concurrent with the initial public offering described below, SandRidge conveyed to the Trust the Royalty Interests in specified oil and natural gas properties in the Permian Basin located in Andrews County, Texas (the Underlying Properties). These Royalty Interests were derived from SandRidge's interests in (a) 517 oil and natural gas wells developed as of April 1, 2011, including 21 wells awaiting completion at that time (together, the Initial Wells) and (b) the equivalent of 888 oil and natural gas development wells to be drilled (Trust Development Wells) within an area of mutual interest (AMI), consisting of approximately 17,500 gross acres (15,900 net acres) in the counties where the Underlying Properties are located.

The Royalty Interests entitle the Trust to receive 80% of the proceeds (after deducting post-production costs and any applicable taxes) from the sale of oil, including natural gas liquids, and natural gas production attributable to SandRidge's net revenue interest in the Initial Wells and 70% of the proceeds (after deducting post-production costs and any applicable taxes) from the sale of oil including natural gas liquids, and natural gas production attributable to SandRidge's net revenue interest in the Trust Development Wells beginning on the effective date of the conveyance, April 1, 2011.

Under the terms of conveyances pursuant to which the Royalty Interests were granted to the Trust, SandRidge is obligated to act as a reasonably prudent operator in the AMI under the same or similar circumstances as it would if it were acting with respect to its own properties, disregarding the existence of the Royalty Interests as burdens affecting such properties. The conveyances generally permit SandRidge to sell all or any part of its interest in the Underlying Properties, if the Underlying Properties are sold, subject to and burdened by the Royalty Interests; however, SandRidge may not sell any of the Underlying Properties subject to the Royalty Interest in the Trust Development Wells until it has satisfied its drilling obligation pursuant to the terms of the development agreement discussed below.

The Trust is passive in nature and neither the Trust nor the Trustee has any control over, or responsibility for, costs relating to the operation of the Underlying Properties. The business and affairs of the Trust are managed by the Trustee. However, the Trustee has no authority over or responsibility for, and no involvement with, any aspect of the oil and gas operations or other activities on the Underlying Properties. The trust agreement generally limits the Trust's business activities to owning the Royalty Interests and entering into derivative contracts on a limited basis and activities reasonably related thereto, including activities required or permitted by the terms of the conveyances related to the Royalty Interests.

The Trust will dissolve and begin to liquidate on March 31, 2031 (the Termination Date) and will soon thereafter wind up its affairs and terminate. At the Termination Date, 50% of the Royalty Interests will revert automatically to SandRidge. The remaining 50% of the Royalty Interests will be retained by the Trust at the Termination Date and thereafter sold, and the net proceeds of the sale, as well as any remaining Trust cash reserves, will be distributed to the unitholders on a pro rata basis. SandRidge has a right of first refusal to purchase the Royalty Interests retained by the Trust at the Termination Date.

Initial Public Offering. Through an initial public offering (IPO) in August 2011, the Trust sold 34,500,000 of its common units to the public for net proceeds, after payment of offering expenses, of approximately \$580.6 million. The Trust delivered the net proceeds of the IPO, along with 4,875,000 common units and 13,125,000 subordinated units, to certain wholly owned subsidiaries of SandRidge, in exchange for the conveyance of the Royalty Interests to the Trust. Upon completion of these transactions and as of December 31, 2011, there were 52,500,000 Trust units,

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consisting of 39,375,000 common and 13,125,000 subordinated units, issued and outstanding. The common and subordinated units have identical rights and privileges, except with respect to their rights to receive distributions. See Distributions below.

Table of Contents

Income Tax Considerations. The Trust is treated for federal and applicable state income tax purposes as a partnership. Trust unitholders are treated as partners in that partnership. For United States (U.S.) federal income tax purposes, a partnership is not a taxable entity and incurs no U.S. federal income tax liability. With respect to state taxation, a partnership is typically treated in the same manner as it is for U.S. federal income tax purposes. Each partner is required to take into account his or her share of items of income, gain, loss, deduction and credit of the partnership in computing his or her federal income tax liability, regardless of whether cash distributions are made to him or her by the partnership. Distributions by a partnership to a partner are generally not taxable to the partner (but instead reduce tax basis but not below zero) unless the amount of cash distributed to such partner is in excess of the partner's adjusted tax basis in his or her partnership interest. The Trust's activities result in the Trust having nexus in Texas and, therefore, make it subject to Texas franchise tax. The Trust will be required to pay Texas franchise tax each year at a maximum effective rate of 0.7% of its gross income apportioned to Texas in the prior year.

Agreements with SandRidge

In conjunction with the conveyance of the Royalty Interests to the Trust, the Trust entered into the following agreements with SandRidge and/or one of its wholly owned subsidiaries on August 16, 2011.

Development Agreement. The Trust entered into a development agreement with SandRidge, effective April 1, 2011, that obligates SandRidge to drill, or cause to be drilled, the Trust Development Wells by March 31, 2015. In the event of delays, SandRidge will have until March 31, 2016 to fulfill its drilling obligation. Additionally, SandRidge agreed not to drill and complete, or allow another person within its control to drill and complete, any other well in the AMI other than (a) Trust Development Wells, (b) up to five horizontal wells to test the results of horizontal drilling in the AMI and (c) wells that were spud and temporarily abandoned on or before March 31, 2011, until SandRidge fulfills its drilling obligation. The Trust will not own any interests in the five test horizontal wells, if they are drilled, and such wells will not count toward SandRidge's drilling obligation. Under the terms of the agreement, SandRidge will be credited for having drilled one full Trust Development Well if a well is drilled and perforated for completion to the Grayburg/San Andres formation and SandRidge's net revenue interest in the well is equal to 69.3%. For wells in which SandRidge has a net revenue interest greater or less than 69.3%, it will receive credit for such well in proportion to its net revenue interest in the well bears to 69.3%. The actual number of wells required to be drilled may increase or decrease in proportion to SandRidge's net revenue interest. In certain circumstances, SandRidge may also receive credit for Trust Development Wells for wells drilled horizontally to the target formation. The Trust is not responsible for any costs related to the drilling of the Trust Development Wells or any other operating or capital costs associated with the wells.

A wholly owned subsidiary of SandRidge granted to the Trust a lien (the Drilling Support Lien) covering its interest in the AMI (except its interest in the Initial Wells) in order to secure the estimated amount of the drilling costs for the Trust's interests in the undeveloped Underlying Properties. The initial amount recoverable by the Trust pursuant to the Drilling Support Lien could not exceed approximately \$295.0 million, which is reduced proportionately as the Trust Development Wells are drilled and perforated for completion. The lien is reduced and the properties subject to the lien are released, in each case, as SandRidge fulfills its drilling obligation under the development agreement. The maximum amount potentially recoverable under the Drilling Support Lien was approximately \$229.7 million as of December 31, 2011.

Administrative Services Agreement. The Trust entered into an administrative services agreement with SandRidge, effective April 1, 2011, that obligates the Trust to pay SandRidge an annual administrative services fee for accounting, tax preparation, bookkeeping and informational services to be performed by SandRidge on behalf of the Trust. Additionally, the administrative services agreement designates SandRidge as the Trust's hedge manager, pursuant to which SandRidge has authority to administer the derivative contracts underlying the derivatives agreement (discussed below), and, on behalf of the Trust, to administer the Trust's derivative contracts with unaffiliated third parties. For its services under the administrative services agreement, SandRidge receives an annual fee of \$300,000, which is payable in equal quarterly installments and will remain fixed for the life of the Trust. SandRidge is also entitled to receive reimbursement for its out-of-pocket fees, costs and expenses incurred in connection with the provision of any of the services under this agreement. The administrative services agreement will terminate on the earliest to occur of: (i) the date the Trust shall have dissolved and commenced winding up in accordance with the trust agreement, (ii) the date that all of the Royalty Interests have been terminated or are no longer held by the Trust, (iii) pertaining to services to be provided with respect to any Underlying Properties transferred by SandRidge, the date that either SandRidge or the Trustee may designate by delivering 90-days prior written notice, provided that SandRidge's drilling obligation has been completed and the transferee of such Underlying Properties assumes responsibility to perform the services in place of SandRidge and (iv) a date mutually agreed to by SandRidge and the Trustee.

Derivatives Agreement and Other Hedging Arrangements. The Trust entered into a derivatives agreement with SandRidge, effective August 1, 2011, that provides the Trust with the economic effect of certain derivative contracts entered into between SandRidge and a third party. Under the derivatives agreement, SandRidge pays the Trust amounts it receives from its counterparty,

Table of Contents

and the Trust pays SandRidge any amounts that SandRidge is required to pay such counterparty. The Trust did not bear any costs related to the establishment of the underlying contracts and, except in limited circumstances involving the restructuring of an existing hedge or the novation of a hedge from SandRidge, does not have the ability to enter into its own derivative contracts. Substantially concurrent with the execution of the derivatives agreement, SandRidge novated certain of the derivative contracts underlying the derivatives agreement to the Trust. As a party to these contracts, the Trust receives payment directly from the counterparty and is required to pay any amounts owed directly to the counterparty. To secure its obligations under these novated contracts, the Trust entered into a collateral agency agreement and has granted the counterparty a lien on the Royalty Interests. Under the collateral agency agreement, the Trust pays a \$15,000 annual fee to the collateral agent. Under the derivatives agreement, as Trust Development Wells are drilled, SandRidge has the right, under certain circumstances, to assign or novate to the Trust additional derivative contracts. The Trust's derivative contracts consist of oil fixed price swaps.

Registration Rights Agreement. The Trust entered into a registration rights agreement for the benefit of SandRidge and certain of its affiliates and transferees, pursuant to which the Trust agreed to register the offering of the Trust units held by SandRidge and certain of its affiliates and permitted transferees upon request by SandRidge. Specifically, the Trust agreed:

to use its reasonable best efforts to file a registration statement, including, if so requested, a shelf registration statement, with the SEC as promptly as practicable following receipt of a notice requesting the filing of a registration statement from holders representing a majority of the then outstanding registrable Trust units;

to use its reasonable best efforts to cause the registration statement or shelf registration statement to be declared effective under the Securities Act as promptly as practicable after the filing thereof; and

to continuously maintain the effectiveness of the registration statement under the Securities Act for 90 days (or continuously if a shelf registration statement is requested) after the effectiveness thereof or until the Trust units covered by the registration statement have been sold pursuant to such registration statement or until all registrable Trust units:

have been sold pursuant to Rule 144 under the Securities Act if the transferee thereof does not receive restricted securities ;

have been sold in a private transaction in which the transferor's rights under the registration rights agreement are not assigned to the transferee of the Trust units; or

become eligible for resale pursuant to Rule 144 (or any similar rule then in effect under the Securities Act).

The holders will have the right to require the Trust to file no more than five registration statements in aggregate.

In connection with the preparation and filing of any registration statement, SandRidge will bear all costs and expenses incidental to any registration statement, excluding certain internal expenses of the Trust, which will be borne by the Trustee, and any underwriting discounts and commissions, which will be borne by the seller of the Trust units.

Distributions

The Trust makes quarterly cash distributions of substantially all of its cash receipts, after deducting amounts for the Trust's administrative expenses and cash reserves withheld by the Trustee, ad valorem tax and Texas franchise tax, on or about 60 days following the completion of each quarter. The first distribution covered production for the five-month period from April 1, 2011 to August 31, 2011. The remaining distributions each cover production for a three-month period. The amount of Trust revenues and cash distributions to Trust unitholders depends on:

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the timing of initial production from the Trust Development Wells;

oil and natural gas prices received;

volume of oil and natural gas produced and sold;

amounts realized and paid under derivative arrangements;

post-production costs and any applicable taxes; and

the Trust's general and administrative expenses.

The amount of the quarterly distributions will fluctuate from quarter to quarter, depending on the factors discussed above. There is no minimum required distribution. However, in order to provide support for cash distributions on the common units, SandRidge agreed to subordinate 13,125,000 of the Trust units it received in exchange for conveyance of the Royalty Interests, which constitute 25% of the Trust units issued and outstanding. The subordinated units are entitled to receive pro rata distributions from the Trust each quarter if and to the extent there is sufficient cash to provide a cash distribution on the common units that is no less than 80% of the target distribution for the corresponding quarter (Subordination Threshold). If there is not sufficient cash to fund such a distribution

Table of Contents

on all of the common units, the distribution to be made with respect to the subordinated units is reduced or eliminated for such quarter in order to make a distribution, to the extent possible, of up to the Subordination Threshold amount on all of the common units. In exchange for agreeing to subordinate a portion of its Trust units, and in order to provide additional financial incentive to SandRidge to satisfy its drilling obligation, SandRidge is entitled to receive incentive distributions equal to 50% of the amount by which the cash available for distribution on all of the Trust units in any quarter exceeds 120% of the target distribution for such quarter (Incentive Threshold). At the end of the fourth full calendar quarter following SandRidge's satisfaction of its drilling obligation with respect to the Trust Development Wells, the subordinated units will automatically convert into common units on a one-for-one basis and SandRidge's right to receive incentive distributions will terminate. After such time, the common units will no longer have the protection of the Subordination Threshold, and all Trust unitholders will share on a pro rata basis in the Trust's distributions.

The following table sets forth the Subordination Threshold and Incentive Threshold for each remaining quarterly distribution through the first quarterly distribution in 2017, as set out in the trust agreement and as included in the final prospectus filed with the SEC by the Trust pursuant to Rule 424(b) under the Securities Act on August 12, 2011.

Period (1)	Subordination Threshold(2)	Incentive Threshold(2)
2011		
Fourth quarter(3)	0.39	0.59
2012		
First quarter	0.42	0.63
Second quarter	0.44	0.66
Third quarter	0.47	0.70
Fourth quarter	0.49	0.74
2013		
First quarter	0.51	0.77
Second quarter	0.53	0.80
Third quarter	0.56	0.84
Fourth quarter	0.58	0.87
2014		
First quarter	0.61	0.91
Second quarter	0.63	0.95
Third quarter	0.65	0.98
Fourth quarter	0.66	0.98
2015		
First quarter	0.64	0.96
Second quarter	0.61	0.92
Third quarter	0.56	0.85
Fourth quarter	0.54	0.81
2016		
First quarter	0.53	0.80
Second quarter	0.52	0.78
Third quarter	0.51	0.77
Fourth quarter	0.50	0.75
2017		
First quarter	0.49	0.74

- (1) Due to the timing of the payment of production proceeds to the Trust, each distribution covers production from a three-month period consisting of the first two months of the most recently ended quarter and the final month of the quarter preceding it.
- (2) Each of the Subordination Threshold (80% of quarterly target distribution) and Incentive Threshold (120% of quarterly target distribution) terminates after the fourth full calendar quarter following SandRidge's completion of its drilling obligation.

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(3) A distribution of \$0.553523 per unit was declared on February 2, 2012 and paid on February 29, 2012. See Note 8 to the financial statements contained in Item 8 of this report for the details of the distribution.

If at any time the Trust's cash on hand (including available cash reserves) is not sufficient to pay the Trust's ordinary course administrative expenses as they become due, the Trust may borrow funds from the Trustee or other lenders to pay such expenses. If such funds are borrowed, no further distributions will be made to unitholders (except in respect of any previously determined quarterly distribution amount) until the borrowed funds have been repaid, except that if SandRidge loans such funds, SandRidge may permit the Trust to make distributions prior to SandRidge being repaid.

Table of Contents**Properties**

As of December 31, 2011, the Trust's properties consisted of Royalty Interests in (a) the Initial Wells, (b) 188 wells (equivalent to approximately 195 Trust Development Wells under the development agreement) that were drilled and perforated for completion between April 1, 2011 and December 31, 2011 (the Additional Drilled Wells and, together with the Initial Wells, the Drilled Wells) and (c) the equivalent of approximately 693 Trust Development Wells to be drilled (the Remaining Development Wells). The following table presents the number of Initial Wells, Trust Development Wells drilled and Remaining Development Wells as of August 16, 2011, the date of the Royalty Interests conveyance, and December 31, 2011.

	Initial Wells	Trust Development Wells Drilled(1)	Remaining Development Wells	Total
August 16, 2011	517	92	796	1,405
December 31, 2011	517	195	693	1,405

- (1) SandRidge is credited for having drilled one full Trust Development Well if a well is drilled and perforated for completion to the Grayburg/San Andres formation and SandRidge's net revenue interest in the well is equal to 69.3%. In certain circumstances, SandRidge may also receive Trust Development Well credit for horizontal wells drilled to such formation.

The Royalty Interests were derived from properties located in the greater Fuhrman-Mascho field, a field in Andrews County, Texas that produces primarily oil from the Grayburg/San Andres formation in the 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 U.S. crude oil production, making this basin the second largest oil producing area in the continental U.S. 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.

Proved Reserves

The following estimates of net proved oil and natural gas reserves are based on reserve reports as of December 31, 2011 prepared by independent petroleum engineers. The PV-10 and Standardized Measure shown in the table below are not intended to represent the current market value of estimated oil and natural gas reserves attributable to the Royalty Interests at December 31, 2011. The reserve report as of December 31, 2011 was based on SandRidge's drilling schedule and the average price during the 12-month period ended December 31, 2011, using first-day-of-the-month prices for each month. Refer to Risk Factors in Item 1A of this report and Trustee's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report in evaluating the reserve information presented below.

All of the oil and natural gas reserves in this report were estimated by Netherland, Sewell & Associates, Inc. (Netherland Sewell). The process to review and estimate the reserves begins with a staff reservoir engineer 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, and geosciences data. This data was reviewed by members of SandRidge's Reservoir Engineering Department and various levels of SandRidge management for accuracy, before consultation with Netherland Sewell. Members of SandRidge's Reservoir Engineering Department consulted regularly with Netherland Sewell during the reserve estimation process to review properties, assumptions, and any new data available. SandRidge's internal reserve estimates and methodologies were compared to Netherland Sewell's estimates and conclusions before the reserve estimates were included in Netherland Sewell's report. Additionally, SandRidge's senior management reviewed and approved the reserve report contained herein.

Internal Controls. SandRidge's Executive Vice President Reservoir Engineering is the technical person primarily responsible for overseeing the preparation of the Trust's reserve 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, SandRidge'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.

Table of Contents

SandRidge maintains a continuous education program for 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, SandRidge's 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 SandRidge's President, independently from all other operating divisions.

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

confirming that reserve 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 SandRidge such as Accounting; and

comparing and reconciling internally generated reserve estimates to those prepared by third parties.

Netherland Sewell. Netherland Sewell estimated all of the proved reserve information in this report, in accordance with the definitions and guidelines of the SEC and, with the exception of the exclusion of future income taxes to which the Trust is not subject, in conformity with the Accounting Standards Codification Topic 932, Extractive Activities - Oil and Gas. Netherland Sewell are independent petroleum engineers, geologists, geophysicists, and petrophysicists; Netherland Sewell does not own an interest in these properties and are not employed on a contingent basis.

The qualifications of the technical person at Netherland Sewell primarily responsible for overseeing the firm's preparation of the Trust's reserve estimates include:

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

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

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

These qualifications meet or exceed the Society of Petroleum Engineers standard requirements to be a professionally qualified Reserve Estimator and Auditor.

A summary of the Trust's proved oil and natural gas reserves, all of which are located in the continental United States, is presented below as of December 31, 2011:

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Estimated Proved Reserves(1)	
Developed	
Oil (MBbls)(2)	8,309.9
Natural gas (MMcf)	2,243.9
Total proved developed (MBoe)	8,683.9
Undeveloped	
Oil (MBbls)(2)	12,440.5
Natural gas (MMcf)	4,926.6
Total proved undeveloped (MBoe)	13,261.6
Total Proved	
Oil (MBbls)(2)	20,750.4
Natural gas (MMcf)	7,170.5
Total proved (MBoe)	21,945.5
PV-10 (in millions)(3)	\$ 946.4
Standardized Measure of Discounted Net Cash Flows (in millions)(4)	\$ 942.9

Table of Contents

- (1) Determined using a 12-month average of the first day of the month prices for oil and natural gas for the year ended December 31, 2011 without giving effect to derivative transactions. The prices used in the reserve report yield weighted average wellhead prices, which are based on first day of the month 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	Natural gas	Oil (per Bbl)	Natural gas
(per Bbl)	(per Mcf)		(per Mcf)