SandRidge Permian Trust
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

OR

o 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	**45-6276683**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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)

Registrant s telephone number, including area code:

(512) 236-6531

Former name, former address and former fiscal year, if changed since last report: **Not applicable**

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 x No o

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 o No o

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.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of November 1, 2013, 39,375,000 Common Units and 13,125,000 Subordinated Units of Beneficial Interest in SandRidge Permian Trust were outstanding.

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SANDRIDGE PERMIAN TRUST

FORM 10-Q

Quarter Ended September 30, 2013

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All references to we, us, our, or the Trust refer to SandRidge Permian Trust. References to SandRidge refer to SandRidge Energy, Inc., and 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.

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DISCLOSURES REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Quarterly Report) 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 2 of Part I and elsewhere herein regarding the Trust s or SandRidge s plans and objectives for future operations, information regarding target distributions and statements regarding the number of development wells to be completed in future periods, are forward-looking statements. Actual outcomes and results may differ materially from those projected. Forward-looking statements are generally accompanied by words such as estimate, target, project, predict, believe, expect, anticipate, potential, could, may, goal, should, intend or other words that convey the uncertainty of future events or outcomes. We have based these 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. However, whether actual results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including the risk factors discussed in Item 1A of the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the 2012 Form 10-K), which could affect the future results of the energy industry in general, and the Trust and SandRidge in particular, and could cause those results to differ materially from those expressed in such forward-looking statements. 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.

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PART I. Financial Information

ITEM 1. ***Financial Statements***

SANDRIDGE PERMIAN TRUST

STATEMENTS OF ASSETS AND TRUST CORPUS

(In thousands, except unit data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 4,588	$ 4,168
Investment in royalty interests	549,831	549,831
Less: accumulated amortization	(97,841)	(62,604)
Net investment in royalty interests	451,990	487,227
Total assets	$ 456,578	$ 491,395
TRUST CORPUS		
Trust corpus, 39,375,000 common units and 13,125,000 subordinated units issued and outstanding at September 30, 2013 and December 31, 2012	$ 456,578	$ 491,395

The accompanying notes are an integral part of these financial statements.

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SANDRIDGE PERMIAN TRUST

STATEMENTS OF DISTRIBUTABLE INCOME

(In thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
Revenues				
Royalty income	$ 30,433	$ 33,193	$ 85,422	$ 94,733
Derivative settlements, net	3,106	1,852	9,555	3,746
Total revenues	33,539	35,045	94,977	98,479
Expenses				
Post-production expenses	31	24	82	90
Property taxes			1,767	162
Production taxes	1,430	1,573	4,003	4,516
Franchise taxes			442	155
Trust administrative expenses	310	291	1,099	1,193
Cash reserves withheld for current Trust expenses, net of amounts used	1,050	1,363	362	1,810
Total expenses	2,821	3,251	7,755	7,926
Distributable income available to unitholders	30,718	31,794	87,222	90,553
Distributable income per common unit (39,375,000 units issued and outstanding)	$ 0.585	$ 0.606	$ 1.706	$ 1.725
Distributable income per subordinated unit (13,125,000 units issued and outstanding)	$ 0.585	$ 0.606	$ 1.526	$ 1.725

The accompanying notes are an integral part of these financial statements.

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SANDRIDGE PERMIAN TRUST

STATEMENTS OF CHANGES IN TRUST CORPUS

(In thousands)

	Nine Months Ended September 30,	
	2013	**2012**
	(Unaudited)	
Trust corpus, beginning of period	$ 491,395	$ 528,525
Amortization of investment in royalty interests	(35,237)	(29,362)
Net cash reserves withheld	362	1,810
Distributable income	87,222	90,553
Distributions paid or payable to unitholders	(87,164)	(89,749)
Trust corpus, end of period	$ 456,578	$ 501,777

The accompanying notes are an integral part of these financial statements.

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SANDRIDGE PERMIAN TRUST

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Organization of Trust

SandRidge Permian Trust (the Trust) is a statutory trust formed under the Delaware Statutory Trust Act pursuant to a trust agreement, as amended and restated, by and among SandRidge Energy, Inc. (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 holds Royalty Interests in specified oil and natural gas properties located in Andrews County, Texas (the Underlying Properties). The Royalty Interests were conveyed by SandRidge to the Trust concurrent with the initial public offering of the Trust s common units in August 2011. As consideration for conveyance of the Royalty Interests, the Trust remitted the proceeds of the offering, along with 4,875,000 Trust common units and 13,125,000 Trust subordinated units, to certain wholly owned subsidiaries of SandRidge. At September 30, 2013, SandRidge owned 1,825,000 Trust common units and 13,125,000 Trust subordinated units.

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 517 oil and natural gas wells developed as of April 1, 2011, including 21 wells awaiting completion at that time (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 888 development wells to be drilled (the Trust Development Wells) within an area of mutual interest (AMI) beginning on April 1, 2011, the effective date of the conveyance.

As specified in the development agreement executed by the Trust with SandRidge (see Note 5), SandRidge is credited for having drilled one full Trust Development Well if the 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%. The actual number of wells required to be drilled may increase or decrease in proportion to SandRidge s net revenue interest in each well. At September 30, 2013, the Trust s properties consisted of Royalty Interests in (a) the Initial Wells, (b) 618 additional wells (equivalent to approximately 637 Trust Development Wells under the development agreement as described in Note 5) that were drilled and perforated for completion between April 1, 2011 and September 30, 2013, and (c) the equivalent of approximately 251 Trust Development Wells to be drilled within the AMI.

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, property tax and Texas franchise tax, on or about 60 days following the completion of each quarter. 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.

The common and subordinated units have identical rights and privileges, except with respect to their rights to receive distributions. The subordinated units, all of which are held by SandRidge, 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 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. Distributions made to common units in respect of subsequent periods 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.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of the Trust differ from financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as the Trust records revenues when cash is received (rather than when earned) and expenses when paid (rather than when incurred) and may also establish cash reserves for

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contingencies, which would not be accrued in financial statements prepared in accordance with GAAP. This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the Securities and Exchange Commission (SEC) as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*. Amortization of investment in royalty interests, calculated on a unit-of-production basis, and any impairments are charged directly to trust corpus. Distributions to unitholders are recorded when declared.

Significant Accounting Policies. Most accounting pronouncements apply to entities whose financial statements are prepared in accordance with GAAP, which may require such entities to accrue or defer revenues and expenses in a period other than when such revenues are received or expenses are paid. Because the Trust s financial statements are prepared on the modified cash basis as described above, most accounting pronouncements are not applicable to the Trust s financial statements.

The Trust is treated for federal and applicable state income tax purposes as a partnership. For 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. However, the Trust s activities result in the Trust having nexus in Texas and, therefore, make it subject to the Texas franchise tax, which is treated as an income tax for financial statement purposes. The Trust is 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. The Trust records Texas franchise tax when paid.

Distributable Income Per Common and Subordinated Unit. The Trust calculates distributable income per common and subordinated unit using the two-class method. In accordance with this method, undistributed earnings in the accompanying unaudited statements of distributable income have been allocated to the common and subordinated units based upon the subordinated units contractual participation rights as if all of the distributable income for the periods presented had been distributed. Distributable income per unit amounts as calculated for the periods presented in the accompanying unaudited statement of distributable income may differ from declared distribution amounts per unit due to the timing of the Trust s receipt or payment of settlements on the novated derivative contracts. See discussion of the Trust s derivative contracts at Note 5.

Interim Financial Statements. The accompanying unaudited financial statements have been prepared in accordance with the accounting policies stated in the audited financial statements contained in the 2012 Form 10-K and reflect all adjustments that are, in the opinion of the Trustee, necessary to state fairly the information in the Trust s unaudited interim financial statements. The accompanying statement of assets and trust corpus as of December 31, 2012 has been derived from audited financial statements. The unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the 2012 Form 10-K.

Risks and Uncertainties. The Trust s revenue and distributions are substantially dependent upon the prevailing and future prices for oil and natural gas, each of which depends on numerous factors beyond the Trust s control such as overall oil and natural gas production and inventories in relevant markets, economic conditions, the global political environment, regulatory developments and competition from other energy sources. Oil and natural gas prices historically have been volatile and may be subject to significant fluctuations in the future. The Trust s derivative arrangements serve to mitigate a portion of the effect of this price volatility through March 31, 2015. See Note 5 for a discussion of the Trust s open oil commodity derivative contracts.

3. Distributions to Unitholders

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, property tax and Texas franchise tax, on or about 60 days following the completion of each quarter. Distributions cover a three-month production period. See Note 6 for discussion of the Trust s quarterly distribution to be paid in November 2013. A summary of the Trust s distributions to unitholders during the nine-month period ended September 30, 2013 and the year ended December 31, 2012 is as follows:

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	Covered Production Period	Date Declared	Date Paid	Total Distribution Paid (in millions)	Distribution Per Unit Common	Distribution Per Unit Subordinated
Calendar Quarter 2013						
First Quarter	September 1, 2012 November 30, 2012	January 31, 2013	March 1, 2013	$ 31.7	$ 0.603	$ 0.603
Second Quarter	December 1, 2012 February 28, 2013	April 25, 2013	May 30, 2013	$ 24.8	$ 0.512	$ 0.353
Third Quarter	March 1, 2013 May 31, 2013	July 25, 2013	August 29, 2013	$ 30.7	$ 0.585	$ 0.585
Calendar Quarter 2012						
First Quarter	September 1,2011 November 30, 2011	February 2, 2012	February 29, 2012	$ 29.1	$ 0.554	$ 0.554
Second Quarter	December 1, 2011 February 29, 2012	April 30, 2012	May 30, 2012	$ 30.5	$ 0.582	$ 0.582
Third Quarter	March 1, 2012 May 31, 2012	July 26, 2012	August 29, 2012	$ 30.1	$ 0.574	$ 0.574
Fourth Quarter	June 1, 2012 August 31, 2012	November 1, 2012	November 29, 2012	$ 32.8	$ 0.625	$ 0.625

4. Loan Commitment

Pursuant to the trust agreement, 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, SandRidge will loan funds to the Trust necessary to pay such expenses. Any funds loaned by SandRidge pursuant to this commitment will be limited to the payment of current accounts payable or other obligations to trade creditors in connection with obtaining goods or services or the payment of other accrued current liabilities arising in the ordinary course of the Trust s business, and may not be used to satisfy Trust indebtedness, or to make distributions. If SandRidge loans funds pursuant to this commitment, unless SandRidge agrees otherwise, no further distributions will be made to unitholders (except in respect of any previously determined quarterly cash distribution amount) until such loan is repaid. Any such loan will be on an unsecured basis, and the terms of such loan will be substantially the same as those which would be obtained in an arm s length transaction between SandRidge and an unaffiliated third party. There was no such loan outstanding with SandRidge at September 30, 2013 or December 31, 2012.

5. Related Party Transactions

Trustee Administrative Fee. Under the terms of the trust agreement, the Trust pays an annual administrative fee of $150,000 to the Trustee, which will be adjusted for inflation by no more than 3% in any year beginning in 2017. The Trustee s administrative fees paid during each of the three-month periods ended September 30, 2013 and 2012, totaled approximately $38,000. The Trustee s administrative fees paid during each of the nine-month periods ended September 30, 2013 and 2012, totaled approximately $113,000.

Registration Rights Agreement. The Trust is party to a registration rights agreement pursuant to which the Trust has agreed to register the offering of the Trust units held by SandRidge and certain of its affiliates and permitted transferees upon request by SandRidge. One such registration statement was filed and declared effective during 2012 and remains effective currently. The holders have the right to require the Trust to file no more than five registration statements in aggregate. The Trust does not bear any expenses associated with such transactions.

Development Agreement. The Trust is party to a development agreement with SandRidge that obligates SandRidge to drill, or cause to be drilled, the Trust Development Wells by March 31, 2016. 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) the 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 has fulfilled its drilling obligation. The Trust will not own any interests in the five test horizontal wells, and such wells will not count toward SandRidge s drilling obligation.

A wholly owned subsidiary of SandRidge granted to the Trust a lien (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

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undeveloped Underlying Properties. The initial amount recoverable by the Trust pursuant to the Drilling Support Lien could not exceed approximately $295.0 million, subject to adjustment as described below. As SandRidge fulfills its drilling obligation over time, the total amount that may be recovered is proportionately reduced and the Trust Development Wells drilled and perforated for completion are released from the lien. If SandRidge does not fulfill its drilling obligation by March 31, 2016, the Trust may foreclose on any remaining interest in the AMI that is subject to the Drilling Support Lien. Any amounts actually recovered in a foreclosure action would be applied to the completion of SandRidge s drilling obligation and would not result in a distribution to the Trust s unitholders. As of September 30, 2013, SandRidge had drilled and perforated for completion approximately 637 equivalent Trust Development Wells, and, accordingly, the maximum amount potentially recoverable under the Drilling Support Lien had been reduced to approximately $83.2 million.

Administrative Services Agreement. The Trust is party to an administrative services agreement with SandRidge 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 (described below), and, on behalf of the Trust, to administer the Trust s derivative contracts with unaffiliated third partiesFor 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. The Trust paid administrative fees to SandRidge equal to $75,000 during each of the three-month periods ended September 30, 2013 and 2012, respectively, and equal to $225,000 during each of the nine-month periods ended September 30, 2013 and 2012, respectively.

Derivatives Agreement. The Trust is party to a derivatives agreement with SandRidge that provides the Trust with the economic effect of certain oil derivative contracts entered into between SandRidge and a third party. Under the derivatives agreement, SandRidge pays the Trust amounts it receives from its counterparty and the Trust pays SandRidge any amounts that SandRidge is required to pay such counterparty. 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 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 fixed price swaps, under which the Trust receives a fixed price for the contract and pays a floating market price over a specified period for a contracted volume. In April 2012 and March 2013, SandRidge novated certain additional portions of the derivative contracts underlying the derivatives agreement to the Trust.

The following tables present, as of September 30, 2013, the notional amount and weighted average fixed price of the open contracts underlying the derivatives agreement and the contracts that have been novated to the Trust. The combined volume in the tables below reflects the total volume of oil derivative contracts for the Trust.

Oil Contracts Underlying the Derivatives Agreement

		Notional (MBbl)		Weighted Avg. Fixed Price
October 2013	December 2013	135	$	102.84
January 2014	December 2014	767	$	101.75
January 2015	March 2015	163	$	100.90

Oil Contracts Underlying the Derivatives Agreement and Novated to the Trust

		Notional (MBbl)		Weighted Avg. Fixed Price
October 2013	December 2013	189	$	102.84
January 2014	December 2014	644	$	101.75
January 2015	March 2015	141	$	100.90

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6. Subsequent Events

Distribution to Unitholders. On October 24, 2013, the Trust declared a cash distribution of $0.652 per unit covering production for the three-month period from June 1, 2013 to August 31, 2013 for record holders as of November 14, 2013. The distribution will be paid on or about November 29, 2013. Distributable income for June 1, 2013 to August 31, 2013 was calculated as follows (in thousands, except for unit and per unit amounts):

Revenues		
Royalty income	$	36,833
Derivative settlements, net		155
Total revenues		36,988
Expenses		
Post-production expenses		33
Production taxes		1,732
Cash reserves withheld by Trustee (1)		1,000
Total expenses		2,765
Distributable income available to unitholders	$	34,223
Distributable income per unit (52,500,000 units issued and outstanding)	$	0.652

(1) Includes amounts withheld for payment of future Trust administrative expenses.

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ITEM 2. ***Trustee s Discussion and Analysis of Financial Condition and Results of Operations***

Introduction

The following discussion and analysis is intended to help the reader understand the Trust s financial condition, results of operations, liquidity and capital resources. This discussion and analysis should be read in conjunction with the Trust s unaudited financial statements and the accompanying notes included in this Quarterly Report and the Trust s audited financial statements and the accompanying notes included in the 2012 Form 10-K.

Overview

The Trust is a statutory trust created under the Delaware Statutory Trust Act. The business and affairs of the Trust are administered by the Trustee and, as necessary, the Delaware Trustee. The Trust s purpose is to hold the Royalty Interests, to distribute to the Trust unitholders cash that the Trust receives in respect of the Royalty Interests and the derivatives agreement (described in Note 5 to the unaudited financial statements contained in Part I, Item 1 of this Quarterly Report) and to perform certain administrative functions in respect of the Royalty Interests and the Trust units. Other than the foregoing activities, the Trust does not conduct any operations or activities. The Trustee has no involvement with, control or authority over, or responsibility for, any aspect of the operations on or relating to the properties in which the Trust has an interest. The Trust derives all or substantially all of its income and cash flow from the Royalty Interests and the derivatives agreement. The Trust is treated as a partnership for federal income tax purposes. The Trust s activities result in the Trust having nexus in Texas and, therefore, make it subject to Texas franchise tax. The Trust is 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.

Properties. As of September 30, 2013, the Trust s properties consisted of Royalty Interests in (a) the Initial Wells, (b) 618 additional wells (equivalent to approximately 637 Trust Development Wells under the development agreement as described below) that were drilled and perforated for completion between April 1, 2011 and September 30, 2013, and (c) the equivalent of approximately 251 Trust Development Wells to be drilled within an AMI consisting of approximately 16,700 gross acres (15,400 net acres) in Andrews County, Texas.

SandRidge is obligated to drill, or cause to be drilled, the Trust Development Wells on or before March 31, 2016. SandRidge is not permitted to drill and complete any well within the AMI for its own account, subject to certain exceptions, until it has satisfied the drilling obligation to the Trust. SandRidge has granted to the Trust a 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 balance of which is reduced as SandRidge fulfills its drilling obligation under the development agreement. At September 30, 2013, the amount potentially recoverable under the lien was approximately $83.2 million.

The Trust is not responsible for any costs related to the drilling of the Trust Development Wells or any other operating or capital costs related to the Underlying Properties. The following table presents the number of Initial Wells, Trust Development Wells drilled and Trust Development Wells to be drilled as of September 30, 2013 and December 31, 2012.

	Initial Wells	Trust Development Wells Drilled(1)	Trust Development Wells To Be Drilled	Total
September 30, 2013	517	637	251	1,405
December 31, 2012	517	454	434	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%. For wells in which SandRidge has a net revenue interest greater or less than 69.3%, SandRidge will receive proportionate credit for such well. In certain circumstances, SandRidge may also receive Trust Development Well credit for horizontal wells drilled to such formation.

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, property tax and Texas franchise tax, on or about 60 days following the completion of each quarter. The Trust s 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 at least equal to the Subordination Threshold. If there is not sufficient cash to fund such a distribution on all of the common units (including the common units SandRidge owns), 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, to all of the common units (including the common units held by SandRidge) up to the Subordination Threshold. However, there is no minimum distribution. If the cash available for distribution on all

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of the Trust units in any quarter exceeds the Incentive Threshold for the corresponding quarter, SandRidge, as holder of the Trust s subordinated units, is entitled to 50% of the amount by which the cash available for distribution exceeds the Incentive Threshold.

The following table sets forth the Subordination Threshold and Incentive Threshold for each remaining calendar quarter through the first quarter of 2017, as set out in the trust agreement.

Period(1)	Subordination Threshold(2)	Incentive Threshold(2)
2013		
Third quarter (3)	$ 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.

(3) A distribution of $0.652 per unit was declared on October 24, 2013 and is expected to be paid on or about November 29, 2013. See Note 6 to the financial statements contained in Item 1 of this report for further discussion.

Pursuant to Internal Revenue Code (IRC) Section 1446, withholding tax on income effectively connected to a United States trade or business allocated to foreign partners should be made at the highest marginal rate. Under IRC Section 1441, withholding tax on fixed, determinable, annual, periodic income from United States sources allocated to foreign partners should be made at 30% of gross income unless the rate is reduced by treaty. This is intended to be a qualified notice to nominees and brokers as provided for under Treasury Regulation

Section 1.1446-4(b) by the Trust, and while specific relief is not specified for IRC Section 1441 income, this disclosure is intended to suffice. Nominees and brokers should withhold at the highest marginal rate, currently 39.6% for individuals, on the distribution made to foreign partners.

Results of Trust Operations

The primary factors affecting the Trust s revenues and costs are the quantity of oil and natural gas production attributable to the Royalty Interests, the prices received for such production and amounts paid or received as net settlements under the derivatives agreement and the Trust s derivative contracts with unaffiliated third parties. Royalty income, post-production expenses, certain taxes and derivative settlements are recorded on a cash basis when net revenue distributions are received by the Trust from SandRidge and net derivative settlements are received from the Trust s derivative counterparty. Information regarding the Trust s production, pricing and costs for the three and nine-month periods ended September 30, 2013 and 2012 is presented below.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013(1)	2012(2)	2013(3)	2012(4)
Production Data				
Oil (MBbls)(5)	357	369	1,056	1,058
Natural gas (MMcf)	90	104	279	280
Combined equivalent volumes (MBoe)	372	386	1,103	1,105
Average daily combined equivalent volumes (MBoe/d)	4.0	4.2	4.0	4.0
Well Data				
Initial and Trust Development Wells producing - average	917	744	881	683
Revenues (in thousands)				
Royalty income	$ 30,433	$ 33,193	$ 85,422	$ 94,733
Derivative settlements	3,106	1,852	9,555	3,746
Total revenue	$ 33,539	$ 35,045	$ 94,977	$ 98,479
Expenses (in thousands)				
Post-production expenses	$ 31	$ 24	$ 82	$ 90
Property taxes			1,767	162
Production taxes	1,430	1,573	4,003	4,516
Franchise taxes			442	155
Trust administrative expenses	310	291	1,099	1,193
Cash reserves withheld for current Trust expenses, net of amounts used	1,050	1,363	362	1,810
Total expenses	$ 2,821	$ 3,251	$ 7,755	$ 7,926
Distributable income available to unitholders	$ 30,718	$ 31,794	$ 87,222	$ 90,553
Average Prices				
Oil (per Bbl)(5)	$ 84.58	$ 89.44	$ 80.14	$ 88.90
Natural gas (per Mcf)	$ 3.08	$ 1.73	$ 2.80	$ 2.33
Combined equivalent (per Boe)	$ 81.91	$ 85.91	$ 77.47	$ 85.74
Average Prices including impact of derivative settlements and post-production expenses				
Oil (per Bbl)(5)(6)	$ 93.26	$ 90.00	$ 89.12	$ 91.68
Natural gas (per Mcf)	$ 2.74	$ 1.49	$ 2.51	$ 2.01
Combined equivalent (per Boe)	$ 90.15	$ 86.37	$ 85.99	$ 88.32
Expenses (per Boe)				
Post-production	$ 0.08	$ 0.06	$ 0.07	$ 0.08
Production taxes	$ 3.85	$ 4.07	$ 3.63	$ 4.09

(1) Oil and natural gas volumes and related revenues and expenses for the three-month period ended September 30, 2013 (included in SandRidge s August 2013 net revenue distribution to the Trust) represent oil and natural gas production from March 1, 2013 to May 31, 2013.

(2) Oil and natural gas volumes and related revenues and expenses for the three-month period ended September 30, 2012 (included in SandRidge s August 2012 net revenue distribution to the Trust) represent oil and natural gas production from March 1, 2012 to May 31, 2012.

(3) Oil and natural gas volumes and related revenues and expenses for the nine-month period ended September 30, 2013 (included in SandRidge s March 2013, May 2013 and August 2013 net revenue distributions to the Trust) represent oil and natural gas production from

September 1, 2012 to May 31, 2013.

(4) Oil and natural gas volumes and related revenues and expenses for the nine-month period ended September 30, 2012 (included in SandRidge s February 2012, May 2012 and August 2012 net revenue distributions to the Trust) represent oil and natural gas production from September 1, 2011 to May 31, 2012.

(5) Includes natural gas liquids.

(6) Includes impact of derivative settlements attributable to production from March 1, 2013 to May 31, 2013 for the three-month period ended September 30, 2013 and from March 1, 2012 to May 31, 2012 for the three-month period ended September 30, 2012. Includes impact of derivative settlements attributable to production from September 1, 2012 to May 31, 2013 for the nine-month period ended September 30, 2013 and from September 1, 2011 to May 31, 2012 for the nine-month period ended September 30, 2012.

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Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012

Revenues

Royalty Income. Royalty income received during the three-month period ended September 30, 2013 totaled $30.4 million compared to $33.2 million received during the three-month period ended September 30, 2012. Royalty income is a function of production volumes sold attributable to the Royalty Interests and associated prices received. The decrease in royalty income was primarily attributable to a decrease in the average price received for oil production, excluding the impact of derivative settlements and post-production expenses, to $84.58 per Bbl during the three-month period ended September 30, 2013 from $89.44 per Bbl during the same period in 2012. Also contributing to the decrease in royalty income was a decrease in equivalent volumes produced as production from Trust Development Wells completed and brought on production during the second half of 2012 and the first half of 2013 was more than offset by natural declines in production from the Initial Wells and older Trust Development Wells. The net revenue distribution from SandRidge received by the Trust during the three-month period ended September 30, 2013 included royalty income attributable to production for the three-month period from March 1, 2013 to May 31, 2013 of 357 MBbls of oil and 90 MMcf of natural gas, or 372 MBoe of combined production. The net revenue distribution from SandRidge received by the Trust during the three-month period ended September 30, 2012 included royalty income attributable to production for the three-month period from March 1, 2012 to May 31, 2012 of 369 MBbls of oil and 104 MMcf of natural gas, or 386 MBoe of combined production. The decreases in the average price received for oil production and total production were slightly offset by an increase in the average price received for natural gas production, excluding the impact of derivative settlements and post-production expenses, to $3.08 per Mcf during the three-month period ended September 30, 2013 from $1.73 per Mcf during the same period in 2012.

Derivative Settlements. The Trust s derivatives agreement with SandRidge reduces the Trust s exposure to commodity price volatility attributable to a portion of production from the Royalty Interests through March 31, 2015 by the use of oil fixed price swaps. Net cash settlements received related to the Trust s derivatives during the three-month period ended September 30, 2013 were approximately $3.1 million, and included (i) approximately $1.1 million received related to the conveyed contracts for production attributable to the Royalty Interests from March 1, 2013 to May 31, (ii) approximately $1.4 million received from the counterparty to the novated contracts for production attributable to the Royalty Interests from April 1, 2013 to May 31, 2013 and (iii) approximately $0.6 million received from the counterparty to the novated contracts for June 2013 production. Total net derivative settlements received by the Trust for production from March 1, 2013 to May 31, 2013 were $3.1 million, including $0.6 million received in May 2013 from the counterparty to the novated contracts, which effectively increased the average price received for oil production for the related period by $8.68 per Bbl to $93.26 per Bbl. Derivative settlements received during the three-month period ended September 30, 2013 related to June 2013 production will be included in the Trust s November 2013 quarterly distribution. Net cash settlements received related to the Trust s derivatives during the three-month period ended September 30, 2012 were approximately $1.9 million, and included net settlements received of approximately $0.4 million related to production from March 1, 2012 to May 31, 2012 and net settlements received of approximately $1.5 million related to June 2012 production. Total net derivative settlements received by the Trust for production from March 1, 2012 to May 31, 2012, including $0.2 million paid in April 2012, were $0.2 million, which effectively increased the average price received for oil production for the related period by $0.56 per Bbl to $90.00 per Bbl. Net cash settlements received were comprised of gains on oil fixed price swaps due to lower average commodity prices at the time of settlement compared to contract prices.

Expenses

Post-Production Expenses. The Trust bears post-production expenses attributable to production from the Royalty Interests. Post-production expenses generally consist of costs incurred to gather, store, compress, transport, process, treat, dehydrate and market the oil and natural gas produced. Post-production expenses for the three-month period ended September 30, 2013 totaled approximately $31,000 compared to approximately $24,000 for the three-month period ended September 30, 2012.

Production Taxes. Production taxes are calculated as a percentage of oil and natural gas revenues, excluding the effects of derivative settlements and net of any applicable tax credits. Production taxes for the three-month period ended September 30, 2013 totaled approximately $1.4 million, or $3.85 per Boe, and were approximately 4.7% of royalty income. Production taxes for the three-month period ended September 30, 2012 totaled approximately $1.6 million, or $4.07 per Boe, and were approximately 4.7% of royalty income.

Trust Administrative Expenses. Trust administrative expenses generally consist of fees paid to the Trustee and the Delaware Trustee, administrative services fees paid to SandRidge, tax return and related form preparation fees, legal and accounting fees, and other expenses incurred as a result of being a publicly traded entity. Trust administrative expenses totaled approximately $0.3 million for each of the three-month periods ended September 30, 2013 and 2012.

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Distributable Income

Distributable income for the three-month period ended September 30, 2013 was $30.7 million, which included a net addition to the cash reserve for payment of future Trust expenses of approximately $1.1 million (approximately $1.4 million withheld from the August 2013 cash distribution to unitholders partially offset by approximately $0.3 million used to pay Trust expenses during the period). Distributable income for the three-month period ended September 30, 2012 was $31.8 million, which included a net addition to the cash reserve for payment of future Trust expenses of approximately $1.4 million (approximately $1.7 million withheld from the August 2012 cash distribution to unitholders less approximately $0.3 million used to pay Trust expenses during the period).

Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012

Revenues

Royalty Income. Royalty income received during the nine-month period ended September 30, 2013 totaled $85.4 million compared to $94.7 million received during the nine-month period ended September 30, 2012. The decrease in royalty income was primarily attributable to a decrease in the average price received for oil production, excluding the impact of derivative settlements and post-production expenses, to $80.14 per Bbl during the nine-month period ended September 30, 2013 from $88.90 per Bbl during the same period in 2012. The net revenue distributions from SandRidge received by the Trust during the nine-month period ended September 30, 2013 included royalty income attributable to production for the nine-month period from September 1, 2012 to May 31, 2013 of 1,056 MBbls of oil and 279 MMcf of natural gas, or 1,103 MBoe of combined production. The net revenue distributions from SandRidge received by the Trust during the nine-month period ended September 30, 2012 included royalty income attributable to production for the nine-month period from September 1, 2011 to May 31, 2012 of 1,058 MBbls of oil and 280 MMcf of natural gas, or 1,105 MBoe of combined production.

Derivative Settlements. Net cash settlements received related to the Trust s derivatives during the nine-month period ended September 30, 2013 were approximately $9.6 million, and included (i) approximately $3.8 million received related to the conveyed contracts for production attributable to the Royalty Interests from September 1, 2012 to May 31, 2013, (ii) approximately $5.2 million received from the counterparty to the novated contracts for production attributable to the Royalty Interests from October 1, 2012 to May 31, 2013 and (iii) approximately $0.6 million received from the counterparty to the novated contracts for June 2013 production. Total net derivative settlements received by the Trust for production from September 1, 2012 to May 31, 2013 were $9.5 million, including $0.5 million received in November 2012 from the counterparty to the novated contracts, which effectively increased the average price received for oil production for the related period by $8.98 per Bbl to $89.12 per Bbl. Net cash settlements received related to the Trust s derivatives during the nine-month period ended September 30, 2012 were approximately $3.7 million and included net settlements received of approximately $2.2 million related to production from September 1, 2011 to May 31, 2012 and net settlements paid of approximately $1.5 million related to June 2012 production. Total net derivative settlements received by the Trust for production from September 1, 2011 to May 31, 2012 were $2.9 million, including $0.7 million received in 2011, and effectively increased the average price received for oil production for the related period by $2.78 per Bbl to $91.68 per Bbl. Net cash settlements received were comprised of gains on oil fixed price swaps due to lower average commodity prices at the time of settlement compared to contract prices.

Expenses

Post-Production Expenses. Post-production expenses for the nine-month period ended September 30, 2013 totaled approximately $82,000 compared to approximately $90,000 for the nine-month period ended September 30, 2012.

Property Taxes. Property taxes paid during the nine-month period ended September 30, 2013 totaled approximately $1.8 million compared to approximately $0.2 million for the nine-month period ended September 30, 2012. The total payments made related to 2012 property taxes were $2.2 million ($0.4 million paid in October 2012 and $1.8 million in paid in January 2013) compared to $0.4 million in payments made related to 2011 property taxes ($0.2 million paid in November 2011 and $0.2 million paid in February 2012). The net increase in expense is attributable to several factors including the number of days the Royalty Interests were owned by the Trust during 2012 compared to 2011, changes in the producing reserves associated with the Royalty Interests and changes in commodity prices used to value the associated reserves.

Production Taxes. Production taxes for the nine-month period ended September 30, 2013 totaled approximately $4.0 million, or $3.63 per Boe, and were approximately 4.7% of royalty income. Production taxes for the nine-month period ended September 30, 2012 totaled approximately $4.5 million, or $4.09 per Boe, and were approximately 4.8% of royalty income.

Texas Franchise Tax. The Trust paid its Texas franchise tax for the period ended December 31, 2012 of approximately $0.4 million, or approximately 0.4% of 2012 royalty income, during the nine-month period ended September 30, 2013. The Trust paid its

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Texas franchise tax for the period ended December 31, 2011 of approximately $0.2 million, or approximately 0.4% of 2011 royalty income, during the nine-month period ended September 30, 2012.

Trust Administrative Expenses. Trust administrative expenses for the nine-month period ended September 30, 2013 totaled approximately $1.1 million compared to approximately $1.2 million for the nine-month period ended September 30, 2012.

Distributable Income.

Distributable income for the nine-month period ended September 30, 2013 was $87.2 million, which included a net addition to the cash reserve for payment of future Trust expenses of approximately $0.4 million (approximately $3.7 million withheld from the March 2013, May 2013 and August 2013 cash distributions to unitholders partially offset by approximately $3.3 million used to pay Trust expenses during the period). Distributable income for the nine-month period ended September 30, 2012 was $90.6 million, which included a net addition to the cash reserve for payment of future Trust expenses of approximately $1.8 million (approximately $3.3 million withheld from the February 2012, May 2012 and August 2013 cash distributions to unitholders less approximately $1.5 million used to pay Trust expenses during the period).

Liquidity and Capital Resources

The Trust s principal sources of liquidity and capital are cash flow generated from the Royalty Interests and derivative contracts. The Trust s primary uses of cash are distributions to Trust unitholders, including, if applicable, incentive distributions to SandRidge, payment of amounts owed under the Trust s derivative contracts, payment of Trust administrative expenses, including any reserves established by the Trustee for future liabilities, payment of applicable taxes and payment of expense reimbursements to SandRidge for out-of-pocket expenses incurred on behalf of the Trust. Under the conveyances granting the Royalty Interests, the Trust does not have any capital requirements related to drilling wells or any other operating and capital costs related to the wells.

Administrative expenses include payments to the Trustee and the Delaware Trustee as well as a quarterly fee to SandRidge pursuant to an administrative services agreement. Each quarter, the Trustee determines the amount of funds available for distribution. Available funds are the excess cash, if any, received by the Trust from the sale of oil and natural gas production attributable to the Royalty Interests for the quarter, over the Trust s expenses for the quarter, subject in all cases to the subordination and incentive provisions previously described. 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, including SandRidge, to pay such expenses. The Trustee does not intend to lend funds to the Trust. 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. There was no such loan outstanding at September 30, 2013 or December 31, 2012.

Under the derivatives agreement, SandRidge pays the Trust amounts it receives from its counterparty and the Trust pays SandRidge any amounts that SandRidge is required to pay such counterparty. Additionally, the Trust receives payment directly from its counterparty to the contracts novated to the Trust by SandRidge and is required to pay any amounts owed under those contracts directly to the counterparty. Significant payments by the Trust to SandRidge or the counterparty to the novated contracts could reduce or eliminate distributions paid to unitholders.

2013 Trust Distributions to Unitholders. During the nine months ended September 30, 2013, the Trust s distributions to unitholders were as follows:

	Covered Production Period	Date Declared	Date Paid		Total Distribution Paid (in millions)
Calendar Quarter 2013					
First Quarter	September 1, 2012 November 30, 2012	January 31, 2013	March 1, 2013	$	31.7
Second Quarter	December 1, 2012 February 28, 2013	April 25, 2013	May 30, 2013	$	24.8
Third Quarter	March 1, 2013 May 31, 2013	July 25, 2013	August 29, 2013	$	30.7

Future Trust Distributions to Unitholders. On October 24, 2013, the Trust declared a cash distribution of $0.652 per unit covering production for the three-month period from June 1, 2013 to August 31, 2013 for record unitholders as of November 14, 2013.

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The distribution will be paid on or about November 29, 2013 and was calculated as follows (in thousands, except for unit and per unit amounts):

Revenues		
Royalty income	$	36,833
Derivative settlements, net		155
Total revenues		36,988
Expenses		
Post-production expenses		33
Production taxes		1,732
Cash reserves withheld by Trustee(1)		1,000
Total expenses		2,765
Distributable income available to unitholders	$	34,223
Distributable income per unit (52,500,000 units issued and outstanding)	$	0.652

(1) Includes amounts withheld for payment of future Trust administrative expenses.

ITEM 3. ***Quantitative and Qualitative Disclosures about Market Risk***

This discussion provides information about commodity derivative contracts, certain benefits and obligations of which SandRidge has passed to the Trust pursuant to a derivatives agreement. Under the derivatives agreement, SandRidge pays the Trust amounts it receives from its counterparty under certain of its derivative contracts with a third party, and the Trust pays SandRidge any amounts that SandRidge is required to pay its counterparty under such derivative contracts. Substantially concurrent with the execution of the derivatives agreement and again in April 2012 and March 2013, SandRidge novated certain additional portions 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 commodity derivative contracts underlying the derivatives agreement are settled in cash and do not require the actual delivery of a commodity at settlement. Fixed price swap contracts are settled based upon New York Mercantile Exchange prices. The contracts underlying the derivatives agreement cover a portion of the anticipated future sales volumes of oil production from the Initial Wells as well as a portion of the anticipated future oil production from the Trust Development Wells through March 31, 2015. Except in limited circumstances involving the novation of an existing hedge, the Trust does not have the ability to enter into additional hedges. See Note 5 to the unaudited financial statements contained in Part I, Item I of this Quarterly Report for notional and price information of the Trust s open oil derivative contractsThe Trust received net settlement proceeds of approximately $9.6 million and $3.7 million related to the derivatives agreement and the Trust s derivative contracts with counterparties during the nine-month periods ended September 30, 2013 and 2012, respectively.

Commodity Price Risk. Because the Trust s primary asset and source of income is the Royalty Interests, which generally entitle the Trust to receive a portion of the net proceeds from sales of oil and natural gas production from the Underlying Properties, the Trust s most significant market risk relates to the prices received for oil and natural gas production. The derivative contracts described above are intended to mitigate a portion of the variability of oil prices received for the Trust s share of production from the Underlying Properties through March 31, 2015.

Credit Risk. A portion of the Trust s liquidity is concentrated in the derivative contracts described above. The use of derivative contracts, including the arrangement between the Trust and SandRidge, involves the risk that SandRidge or its counterparty or the Trust s unaffiliated counterparty will be unable to meet their obligations under the contracts. The Trust s counterparty under the derivatives agreement is SandRidge, whose sole current counterparty is an institution with a corporate credit rating equal to or better than an investment grade credit rating. The sole current counterparty to the derivative contracts novated by SandRidge to the Trust is also an institution with a corporate credit rating of an investment grade credit rating. SandRidge is not required to pay the Trust to the extent of payment defaults by SandRidge s counterparty.

ITEM 4. ***Controls and Procedures***

The Trustee conducted an evaluation of the Trust s disclosure controls and procedures, as defined in Rules 13a-15 and 15d-15 under the Exchange Act, designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and

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forms and such information is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, the Trustee has concluded that the disclosure controls and procedures of the Trust are effective as of the end of the period covered by this report. In its evaluation of disclosure controls and procedures, the Trustee has relied, to the extent considered reasonable, on information provided by SandRidge.

Due to the nature of the Trust as a passive entity and in light of the contractual arrangements pursuant to which the Trust was created, including the provisions of (i) the trust agreement, (ii) the administrative services agreement, (iii) the development agreement and (iv) the conveyances granting the Royalty Interests, the Trustee s disclosure controls and procedures related to the Trust necessarily rely on (A) information provided by SandRidge, including information relating to results of operations, the status of drilling of the Trust Development Wells, the costs and revenues attributable to the Trust s interests under the conveyance and other operating and historical data, plans for future operating and capital expenditures, reserve information, information relating to projected production, and other information relating to the status and results of operations of the Underlying Properties and the Royalty Interests, and (B) conclusions and reports regarding reserves by the Trust s independent reserve engineers.

There were no changes in the Trust s internal control over financial reporting during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Trustee s internal control over financial reporting. The Trustee notes for purposes of clarification that it has no authority over, has not evaluated and makes no statement concerning, the internal control over financial reporting of SandRidge.

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PART II. Other Information

ITEM 1A. ***Risk Factors***

Risk factors relating to the Trust are contained in Item 1A of the Trust s Annual Report on Form 10-K for the fiscal year ended December 31, 2012. No material change to such risk factors has occurred during the nine-month period ended September 30, 2013.

ITEM 6. ***Exhibits***

See the Exhibit Index accompanying this Quarterly Report.

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SIGNATURE

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

SANDRIDGE PERMIAN TRUST

By: THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A, Trustee

By: /s/ Michael J. Ulrich
Michael J. Ulrich
Vice President

Date: November 8, 2013

The Registrant, SandRidge Permian Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available, and none have been provided. In signing the report above, the Trustee does not imply that it has performed any such function or that any such function exists pursuant to the terms of the trust agreement under which it serves.

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EXHIBIT INDEX

Exhibit No.	Exhibit Description	Incorporated by Reference Form	SEC File No.	Exhibit	Filing Date	Filed Herewith
3.1	Certificate of Trust of SandRidge Permian Trust	S-1	333-174492	3.1	05/25/2011	
3.2	Amended and Restated Trust Agreement of SandRidge Permian Trust, dated August 16, 2011, by and among SandRidge Energy, Inc., The Bank of New York Mellon Trust Company, N.A., and The Corporation Trust Company	8-K	001-35274	4.1	08/19/2011	
3.3	Amendment No. 1 to Amended and Restated Trust Agreement of SandRidge Permian Trust, dated June 18, 2012, by the Bank of New York Mellon Trust Company, N.A.	10-Q	001-35274	3.3	08/13/2012	
31.1	Section 302 Certification					*
32.1	Section 906 Certification					*