

# THE NEW AMERICA

**SANDRIDGE ENERGY INC.** Oklahoma City, Oklahoma

## Oil And Gas Producer On A Winning Streak In West Texas Field

BY MARILYN MUCH  
INVESTOR'S BUSINESS DAILY

In the ongoing quest for new sources of natural gas, SandRidge Energy is turning out to be a big winner.

The oil and natural gas company is focused on expanding exploration and production of its large holdings in a natural-gas-heavy geological region known as the West Texas Overthrust (WTO), located in Pecos and Terrell counties in West Texas.

SandRidge<sup>®</sup> is by far the dominant player in the WTO, where it has operated since 1986. It owns the WTO to roughly 510,000 acres in the area. It has drilled and completed more wells in this region than all other area operators combined, the company says.

SandRidge executives weren't available for comment. But analysts say the WTO holds a lot of potential for the company.

"They control a virtual monopoly in the WTO," said analyst Scott Hanold of RBC Capital Markets. "There are barriers to entry for someone else to come in because of their ownership in the play."

### Pinon Field

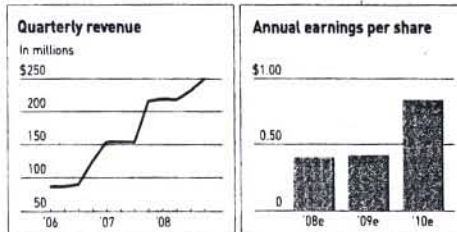
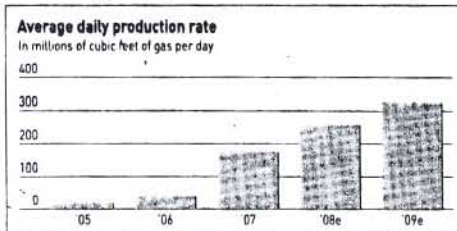
The WTO encompasses 1.3 million acres. That includes the 60,000 acres of the Pinon Field, SandRidge's biggest-producing field, where it has done most of its drilling.

As of Dec. 31, the Pinon Field accounted for 61% of SandRidge's proven reserve base and 76% of its 2007 exploration and development spending. Its interest in the field included 471 producing wells.

As of that date, it had identified 2,600 potential well locations in the

### Strong Natural Gas Player

SandRidge is an oil and natural gas company that's the dominant player in a natural-gas-heavy geological region called the West Texas Overthrust (WTO). Thanks to its success in the WTO, the company has enjoyed strong growth. It should see hefty gains going forward as it further taps into the WTO's potential



Sources: RBC Capital Markets, Thomson Financial, company reports

Pinon Field, including 400 proven undeveloped drilling locations.

"SandRidge has drilled over 400 wells in the Pinon Field and has found gas in every well," said Hanold. "Obviously it's a successful play."

The company went public Nov. 6, 2007, and, thanks to its success in the WTO, has been on fire ever since. In the fourth quarter it earned 9 cents per share, vs. a loss of 1 cent a

year ago. Revenue climbed 72% to \$215.7 million.

The high price of natural gas has helped drive the company's growth, says analyst Anish Patel of Credit Suisse. The price of natural gas has risen from \$7 per million British thermal units at the end of 2007 to as high as \$10.20 per million Btu on March 13.

Patel estimates that every \$1 increase in natural gas prices increases

**SandRidge Energy Inc.**  
sandridgeenergy.com

Ticker	SD
Share price	Near 38
12-month sales	\$677 mil
5-year profit growth rate	31%

<b>IBD SmartSelect Corporate Ratings</b>	
Composite Rating	99
Earnings Per Share	96
Relative Price Strength	93
Industry Group Relative Strength	A+
Sales+Profit Margins+ROE	B
Accumulation/Distribution	A-

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es SandRidge's net asset value by 12%.

During the quarter, SandRidge's natural gas production more than doubled to 16.8 billion cubic feet. Crude oil production also more than doubled to 601,000 barrels.

In addition to the WTO, SandRidge also operates significant interests in the so-called Cotton Valley Trend in East Texas, the Gulf Coast area, the Gulf of Mexico, its home state of Oklahoma and the Piceance Basin of Colorado.

Followers expect the company to keep up its momentum. Analysts polled by Thomson Financial expect 2008 earnings to soar 733% to 38 cents a share, then another 13% in 2009 and 95% in 2010.

"They've got phenomenal growth and are at the early stage of a lot more growth," said Hanold.

Last year was a year of expansion, Chief Executive Tom Ward said in a statement.

"As we look to 2008, we anticipate a year of exploration, as we drill several wells away from the Pinon Field, while continuing to drill development wells within Pinon," he

said.

The company expects total 2008 production to rise 48% from last year's.

SandRidge has identified 4 trillion cubic feet of recoverable natural gas in the Pinon Field, Hanold says. He figures there could be as much as three to 10 times that amount of recoverable natural gas outside of the Pinon Field.

It's possible the company will see total production growth of between 25% and 30% a year through the end of the decade, says Patel.

"It will really be driven by development drilling at the Pinon Field, plus new drilling outside of the Pinon Field," he said.

SandRidge has pretty much proved the Pinon Field is productive for natural gas. Now its goal is to prove that over the remaining acres it owns in the WTO, says Patel.

To better assess the potential of the WTO, SandRidge last May began a three-year, 3-D seismic program to acquire 1,400 square miles of seismic data in the WTO. The company expects this program to identify structural details of potential reservoirs, thus lowering exploratory drilling risk.

The company says it's the largest 3-D seismic shoot done onshore in the U.S.

"It's a massive program that will help them better see the potential of gas from this play," said Hanold.

Management is encouraged by the initial 3-D seismic data it's received. CEO Ward said in his statement. After processing less than 20% of its expected seismic shoot, SandRidge has identified seven exploration targets to drill in 2008. They're several

miles away from the Pinon Field development.

Management is encouraged enough by the initial phase of the program to expand its leasehold and exploration budget for 2008 by \$150 million to explore new fields within the WTO.

Its total 2008 capital expenditure budget is \$1.25 billion. It expects to spend \$662 million for drilling in the WTO, including the Pinon Field, and \$285 million for drilling in non-WTO areas.

### Drilling Rigs

The company plans to drill about 440 wells this year.

SandRidge also owns and operates drilling rigs and a related oil-field services business called Lariat Services. As of Dec. 31, it owned a fleet of 32 drilling rigs. It's also a 50% partner in a limited partnership that owns 12 rigs, 11 of which are operational. It has 41 rigs operating, 31 of which are drilling in the Pinon Field.

Hanold says SandRidge owns most of the rigs that operate in the WTO area, another plus in terms of the company's dominant position in the WTO. The company also owns CO2 treating and transportation facilities through its PetroSource Energy arm.

Though SandRidge has been operating in the WTO since 1986, it really upped its position in the area with the \$1.5 billion purchase of NEG Oil & Gas in 2006. With core assets in the Val Verde and Permian basins of West Texas, including overlapping and contiguous interests in the WTO, the buy substantially increased its exploration and production segment operations.