

SANDRIDGE ENERGY INC

Form 8-K

April 02, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): April 2, 2012**

**SANDRIDGE ENERGY, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction)**

**1-33784**  
**(Commission)**

**20-8084793**  
**(I.R.S. Employer)**

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of incorporation)

File Number)

Identification No.)

**123 Robert S. Kerr Avenue**

**Oklahoma City, Oklahoma**  
(Address of principal executive offices)

**73102**  
(Zip Code)

**Registrant's telephone number, including area code: (405) 429-5500**

**Not Applicable**

**Former name or former address, if changed since last report**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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### **Item 7.01 Regulation FD Disclosure.**

As previously reported, on February 1, 2012, SandRidge Energy, Inc. (the Company) and Dynamic Offshore Holding, LP (the Seller) entered into an Equity Purchase Agreement (the Equity Purchase Agreement), pursuant to which the Company will acquire 100% of the outstanding equity interests of Dynamic Offshore Resources, LLC, a Delaware limited liability company and wholly owned subsidiary of Seller (Dynamic). The Equity Purchase Agreement provides that, at the closing, the Company will pay to the Seller 73,961,554 shares of Company common stock and \$681,828,337 in cash. Consummation of the transaction is subject to customary conditions, including the absence of any material adverse effect relating to Dynamic. The Company anticipates that the closing will occur during the quarter ended June 30, 2012.

This Current Report on Form 8-K is being furnished to provide additional information about the Company and Dynamic. It includes Dynamic's audited historical financial statements for the three years ended December 31, 2011, as well as audited historical financial statements for the two years ended December 31, 2010 of certain oil and natural gas interests in the Gulf of Mexico (the XTO Properties) that Dynamic acquired in 2011 from Exxon Mobil Corporation, and Dynamic's unaudited pro forma condensed statement of operations for the year ended December 31, 2011 showing the effects of Dynamic's acquisition of the XTO Properties. See Index to Financial Statements. Unless otherwise specifically stated, the information included in this Current Report on Form 8-K does not include information related to our pending acquisition of Dynamic.

Dynamic is an oil and natural gas exploration, development and production company with operations in the Gulf of Mexico. As of December 31, 2011, Dynamic's estimated net proved reserves were 62.5 MMBoe, of which 51% was oil and 81% were proved developed, with an associated PV-10 of approximately \$1.895 billion, based on SEC pricing of \$96.19 per Bbl for oil and \$4.118 per MMBtu for natural gas. During February 2012, Dynamic's properties had aggregate average net daily production of approximately 25,500 Boe per day. The oil and gas reserve estimates for Dynamic are based on a December 31, 2011 reserve report prepared by Netherland, Sewell & Associates, Inc., an independent petroleum engineer.

As of December 31, 2011, Dynamic had interests in approximately 295 net productive wells and over 217 offshore oil and gas leases in federal and state waters of the Gulf of Mexico, representing approximately 731,600 gross (423,500 net) acres. Dynamic's properties are predominantly located in water depths of less than 300 feet. In addition, Dynamic owns a 49% interest in and operates the deepwater Bullwinkle field and associated platform, located in approximately 1,350 feet of water. Similar to Dynamic's shallow water properties, the Bullwinkle field produces from a fixed-leg platform utilizing surface wellheads and blowout preventers and, consequently, is not subject to recent regulations instituted for deepwater drilling.

Pro forma financial information showing our results of operations and financial condition as of and for the year ended December 31, 2011 on a pro forma basis giving effect to the Dynamic acquisition is not yet available. We plan to file such unaudited pro forma financial information by mid-April. We expect that, on a pro forma basis, the Dynamic acquisition will be accretive to our cash flows from operations and that pro forma EBITDA for the year ended December 31, 2011 will approximate the combined amounts of our pro forma EBITDA and Dynamic's pro forma EBITDAX for that period. In

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preparing such unaudited pro forma financial information, we will make a number of adjustments to Dynamic's historical financial results to reflect the acquisition and its effects. These adjustments are expected to include, but not be limited to, the following:

The unaudited pro forma balance sheet will reflect adjustments to the historical book values of Dynamic's assets and liabilities as of December 31, 2011 to their estimated fair values, in accordance with acquisition accounting. The fair value of Dynamic's oil and natural gas properties will be estimated using a discounted cash flow model, with future cash flows estimated based upon oil and gas reserve quantities and forward strip oil and natural gas prices. Any difference between the value of consideration given and the fair market value of net assets acquired and liabilities assumed will be reflected as either goodwill (excess consideration given over fair value of net assets acquired and liabilities assumed) or a bargain purchase gain (excess fair value of net assets acquired and liabilities assumed over consideration given).

Liabilities assumed upon our acquisition of Dynamic will include asset retirement obligations associated with Dynamic's oil and natural gas properties. Asset retirement obligations represent estimates of costs to plug, abandon and remediate oil and natural gas properties at the end of their productive lives, in accordance with applicable state laws. Retirement obligations associated with Dynamic's properties are higher than those associated with our properties due to the offshore location of Dynamic's operations.

Because we use the full cost method of accounting for costs related to oil and natural gas properties and Dynamic uses the successful efforts method of accounting, we will need to adjust various line items in Dynamic's historical statement of operations to present such statements as if the full cost method of accounting had been used throughout the periods presented. As a result, we expect that certain operating costs of Dynamic that were charged to expense, such as unsuccessful exploration drilling costs, geological and geophysical costs, delay rental on leases, and abandonment costs, will not be deducted in the calculation of pro forma combined net income or loss.

The pro forma financial statements will reflect the issuance of additional long-term debt and the associated pro forma additional interest expense related to the application of proceeds to fund the cash portion of the Dynamic purchase price. Pro forma financial information, including Dynamic's pro forma EBITDAX for the year ended December 31, 2011, is necessarily illustrative only and does not purport to present what our results of operations and financial condition would have been had the Dynamic acquisition actually occurred on or before December 31, 2011.

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**SUMMARY HISTORICAL CONSOLIDATED AND PRO FORMA FINANCIAL DATA**

**Summary Historical Consolidated and Pro Forma Condensed Financial Data    SandRidge**

The following table presents our summary historical consolidated financial data and summary unaudited pro forma condensed statement of operations data for the periods shown. The summary historical consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 has been derived from our audited consolidated financial statements for those dates and periods. The following summary historical financial data should be read in conjunction with Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes thereto included in our 2011 Annual Report on Form 10-K, as amended. The summary unaudited pro forma condensed statement of operations data for the year ended December 31, 2011 have been derived from our unaudited pro forma condensed financial statements included in a Current Report on Form 8-K, which is being filed on the date hereof. The summary unaudited pro forma condensed statement of operations data does not give effect to the Dynamic acquisition. You should read the following summary unaudited pro forma statement of operations data in conjunction with the complete unaudited pro forma condensed financial statements and the related notes thereto.

The summary unaudited pro forma condensed statement of operations data reflects our historical results for the year ended December 31, 2011 adjusted on a pro forma basis to give effect to (i) our proposed conveyance of royalty interests in certain oil and natural gas properties located in northern Oklahoma and southern Kansas to the SandRidge Mississippian Trust II (the Trust) in connection with the Trust's initial public offering, (ii) the sale of certain producing properties located in eastern Texas in November 2011 and (iii) our conveyance of royalty interests in certain oil and natural gas properties located in Andrews County, Texas to SandRidge Permian Trust in August 2011. The summary unaudited pro forma condensed financial information also adjusts our historical results to give effect to final adjustments recorded in 2011 with respect to our July 2010 acquisition of Arena Resources, Inc., as if they had occurred prior to 2011. We refer to the transactions giving rise to the pro forma adjustments collectively as the SandRidge Transactions. The summary unaudited pro forma condensed financial information does not include our receipt of the proceeds of the Trust's public offering, which we will receive as consideration for the conveyance of royalty interests to the Trust.

The summary unaudited pro forma condensed statement of operations data have been presented for illustrative purposes only and do not purport to present what our results of operations and financial condition would have been had these transactions actually occurred on the relevant dates, nor do they project our results of operations for any future period or our financial condition at any future date. We therefore caution you not to place undue reliance on the following summary unaudited pro forma statement of operations data.

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	Pro Forma	Historical		
	2011	Years Ended December 31, 2011	2010	2009
(in thousands)				
Statement of Operations Data: <sup>(1)</sup>				
Revenues	\$ 1,375,678	\$ 1,415,213	\$ 931,736	\$ 591,044
Expenses:				
Production	309,367	322,877	237,863	169,880
Production taxes	44,850	46,069	29,170	4,010
Drilling and services	65,654	65,654	22,368	28,380
Midstream and marketing	66,007	66,007	90,149	80,608
Depreciation and depletion oil and natural gas	320,674	326,614	275,335	176,027
Depreciation and amortization other	53,630	53,630	50,776	50,865
Impairment	2,825	2,825		1,707,150
General and administrative	150,143	148,643	179,565	100,256
(Gain) loss on derivative contracts	(44,075)	(44,075)	50,872	(147,527)
(Gain) loss on sale of assets	(2,044)	(2,044)	2,424	26,419
Total expenses	967,031	986,200	938,522	2,196,068
Income (loss) from operations	408,647	429,013	(6,786)	(1,605,024)
Other income (expense):				
Interest income	240	240	296	375
Interest expense	(234,440)	(237,572)	(247,738)	(185,691)
Loss on extinguishment of debt	(38,232)	(38,232)		
Income from equity investments				1,020
Other income, net	970	3,122	2,558	7,272
Total other expense	(271,462)	(272,442)	(244,884)	(177,024)
Income (loss) before income taxes	137,185	156,571	(251,670)	(1,782,048)
Income tax expense (benefit)	377	(5,817)	(446,680)	(8,716)
Net income (loss)	\$ 136,808	\$ 162,388	\$ 195,010	\$ (1,773,332)
Less: net income attributable to noncontrolling interest	95,336	54,323	4,445	2,258
Net income (loss) attributable to SandRidge Energy, Inc.	\$ 41,472	\$ 108,065	\$ 190,565	\$ (1,775,590)

(1) SandRidge historical and pro forma information was prepared using the full cost method of accounting.

	As of December 31, 20112010 (in thousands)	
Balance Sheet Data (as of the end of the period):		
Cash and cash equivalents	\$ 207,681	\$ 5,863
Property, plant and equipment, net	\$ 5,389,424	\$ 4,733,865
Total assets	\$ 6,219,609	\$ 5,231,448
Total debt	\$ 2,814,176	\$ 2,909,086
Total equity	\$ 2,548,950	\$ 1,547,483
Total liabilities and equity	\$ 6,219,609	\$ 5,231,448

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	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
<b>Cash Flow Data:</b>			
Net cash provided by operating activities	\$ 475,485	\$ 390,128	\$ 311,559
Net cash used in investing activities	\$ (918,860)	\$ (962,753)	\$ (1,247,059)
Net cash provided by financing activities	\$ 645,193	\$ 570,627	\$ 942,725
<b>Other Financial Data:</b>			
EBITDA <sup>(a)</sup>	\$ 726,310	\$ 309,339	\$ (1,371,277)
Pro forma EBITDA <sup>(b)</sup>	\$ 656,839	n/a	n/a

- (a) EBITDA is a non-GAAP financial measure. We define EBITDA as net income (loss) before income tax expense (benefit), interest expense and depreciation, depletion and amortization.

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EBITDA is a supplemental financial measure used by our management and securities analysts, investors, lenders, rating agencies and others who follow the industry as an indicator of our ability to internally fund exploration and development activities and to service or incur additional debt. EBITDA allows us to compare our operating performance and return on capital with those of other companies without regard to financing methods and capital structure. EBITDA should not be considered in isolation or as a substitute for net income, operating income or any other measure of financial performance prepared in accordance with generally accepted accounting principles. EBITDA excludes some, but not all, items that affect net income and operating income and we may define EBITDA differently than other companies. Therefore, our EBITDA may not be comparable to similarly titled measures used by other companies.

- (b) Pro forma EBITDA adjusts 2011 historical EBITDA to give effect to the SandRidge Transactions. Pro forma EBITDA is calculated in the same manner as EBITDA, as described in note (a) to this table. Pro forma EBITDA is presented to reflect the SandRidge Transactions effect on our 2011 operating performance.

**Reconciliation of Net Income (Loss) to EBITDA**

	Pro Forma <sup>(1)</sup>	Historical Years Ended December 31,		
	2011	2011	2010	2009
	(in thousands)			
<b>Net income (loss)</b>	\$ 41,472	\$ 108,065	\$ 190,565	\$ (1,775,590)
Adjusted for:				
Income tax expense (benefit)	377	(5,817)	(446,680)	(8,716)
Interest expense <sup>(2)</sup>	240,686	243,818	239,343	186,137
Depreciation and amortization other	53,630	53,630	50,776	50,865
Depreciation and depletion oil and natural gas	320,674	326,614	275,335	176,027
<b>EBITDA</b>	<b>\$ 656,839</b>	<b>\$ 726,310</b>	<b>\$ 309,339</b>	<b>\$ (1,371,277)</b>

- (1) This column consists of a reconciliation of net income to EBITDA, with all amounts calculated on a pro forma basis to give effect to the SandRidge Transactions.
- (2) Excludes unrealized (gain) loss on interest rate swaps of (\$6.2) million, \$8.4 million and (\$0.4) million for the years ended December 31, 2011, 2010 and 2009, respectively.



**Table of Contents****Summary Historical Consolidated and Pro Forma Condensed Financial Information    Dynamic**

The following table presents Dynamic's summary audited historical consolidated financial data for the periods shown, as well as summary unaudited pro forma condensed statement of operations data for the year ended December 31, 2011 showing the effects of Dynamic's acquisition of the XTO Properties. The summary consolidated financial data as of December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009 has been derived from Dynamic's audited consolidated financial statements, which are attached hereto, for those dates and periods. The summary unaudited pro forma condensed statement of operations data for the year ended December 31, 2011 have been derived from Dynamic's unaudited pro forma condensed statements of operations for such period, which are also attached hereto. You should read the following summary financial data in conjunction with Dynamic's audited historical consolidated financial statements and related notes thereto and Dynamic's unaudited pro forma condensed statements of operations and related notes thereto.

The summary unaudited pro forma condensed statement of operations data have been presented for illustrative purposes only and do not purport to present what Dynamic's results of operations and financial condition would have been had these transactions actually occurred on the relevant dates, nor do they project our results of operations for any future period or our financial condition at any future date. We therefore caution you not to place undue reliance on the following summary unaudited pro forma condensed statement of operations data.

	Pro Forma	Historical		
	2011	2011	2010	2009
		Years Ended December 31,		
		(in thousands)		
<b>Statement of Operations Data:<sup>(1)</sup></b>				
Revenues	\$ 616,420	\$ 520,782	\$ 358,627	\$ 181,009
Expenses:				
Lease operating expense	133,094	113,487	89,399	60,618
Exploration expense	15,085	15,085	2,100	8,999
Depreciation, depletion and				
amortization	203,457	173,585	195,122	88,573
General and administrative expense	24,400	24,400	22,547	24,481
Other operating expense	84,124	77,505	73,047	51,142
<b>Total expenses</b>	<b>460,160</b>	<b>404,062</b>	<b>382,215</b>	<b>233,813</b>
Income (loss) from operations	156,260	116,720	(23,588)	(52,804)
Other income (expense):				
Interest expense, net	(13,007)	(9,503)	(13,541)	(7,138)
Commodity derivative income (expense)	43,734	43,734	6,990	(21,887)
Bargain purchase gain	282	282	4,024	161,351
Other	(145)	(145)	(1,080)	
Income (loss) before income taxes	187,124	151,088	(27,195)	79,522
Income tax benefit	5,359	5,359	14,814	20,387
Net income (loss)	\$ 192,483	\$ 156,447	\$ (12,381)	\$ 99,909
Less: net income (loss) attributable to noncontrolling interest	460	460	(4,070)	57,663
Net income (loss) attributable to Dynamic Offshore Resources, LLC	\$ 192,023	\$ 155,987	\$ (8,311)	\$ 42,246

(1) Dynamic historical and pro forma information was prepared using the successful efforts method of accounting.



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	As of December 31,	
	2011	2010
	(in thousands)	
<b>Balance Sheet Data (as of the end of the period):</b>		
Cash and cash equivalents	\$ 58,696	\$ 75,162
Property and equipment, net	\$ 1,199,411	\$ 864,645
Total assets	\$ 1,463,769	\$ 1,067,131
Total debt	\$ 365,000	\$ 203,205
Total equity	\$ 519,087	\$ 477,031
Total liabilities and equity	\$ 1,463,769	\$ 1,067,131

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
<b>Cash Flow Data:</b>			
Net cash provided by operating activities	\$ 277,142	\$ 159,156	\$ 38,912
Net cash provided by (used in) investing activities	\$ (337,454)	\$ (94,605)	\$ 62,075
Net cash provided by (used in) financing activities	\$ 43,846	\$ (77,846)	\$ (64,705)
<b>Other Financial Data:</b>			
EBITDAX <sup>(a)</sup>	\$ 361,335	200,821	133,780
Pro forma EBITDAX <sup>(b)</sup>	\$ 433,241	n/a	n/a

- (a) EBITDAX is a non-GAAP financial measure used by Dynamic that most closely corresponds to our definition of EBITDA. Dynamic's EBITDAX is calculated as net income (loss) before income tax (benefit), interest expense, exploration expense, depreciation, depletion and amortization and accretion of asset retirement obligation.
- (b) Pro forma EBITDAX gives effect to Dynamic's acquisition of the XTO Properties as though such acquisition occurred on December 31, 2010.

### Reconciliation of Net Income (Loss) to EBITDAX

	Pro Forma <sup>(1)</sup>	Historical Years Ended December 31,		
	2011	2011	2010	2009
	(in thousands)			
<b>Net income (loss)</b>	\$ 192,023	\$ 155,987	\$ (8,311)	\$ 42,246
Adjusted for:				
Income tax benefit	(5,359)	(5,359)	(14,814)	(20,387)
Interest expense, net	13,007	9,503	13,541	7,138
Exploration expense	15,085	15,085	2,100	8,999
Depreciation, depletion and amortization	203,457	173,585	195,122	88,573
Accretion of asset retirement obligation	15,028	12,534	13,183	7,211
<b>EBITDAX</b>	\$ 433,241	\$ 361,335	\$ 200,281	\$ 133,780

- (1) This column consists of a reconciliation of net income to EBITDAX, with all amounts calculated on a pro forma basis to give effect to Dynamic's 2011 purchase of the XTO Properties.



**Table of Contents****Summary SandRidge and Dynamic Oil and Natural Gas Reserve and Production Data**

The following table sets forth summary unaudited information with respect to our and Dynamic's estimated oil and natural gas reserves as of December 31, 2011. The SandRidge historical oil and natural gas reserve data presented below have been derived from our 2011 Annual Report on Form 10-K, as amended, and the Dynamic historical oil and natural gas reserve data are based on a reserve report prepared by Netherland, Sewell & Associates, Inc., which is dated as of December 31, 2011.

For convenience, we also present the mathematical combination of our and Dynamic's estimated oil and natural gas reserves. This combined number does not purport to represent what our estimated oil and natural gas reserves would have been if the Dynamic acquisition had occurred on or before December 31, 2011, in part because our reserve estimation processes and assumptions may differ from those used by Dynamic. Future exploration, exploitation and development expenditures, as well as future commodity prices and service costs, will affect the reserve volumes attributable to the Dynamic acquired properties. The reserves estimates shown below were determined using a 12-month average price for oil and natural gas for the year ended December 31, 2011.

	<b>Estimated Proved Reserves as of December 31, 2011</b>		
	<b>SandRidge Historical</b>	<b>Dynamic Historical</b>	<b>Combined</b>
<b>Estimated Proved Reserves:</b>			
Oil (MMBbls)	244.8	32.1	276.9
Natural gas (Bcf)	1,355.1	182.3	1,537.4
Total (MMBoe)	470.6	62.5	533.1
<b>Estimated Proved Developed Reserves:</b>			
Oil (MMBbls)	118.7	26.1	144.8
Natural Gas (Bcf)	670.4	146.9	817.3
Total (MMBoe)	230.4	50.6	281.0
<b>Estimated Proved Undeveloped Reserves:</b>			
Oil (MMBbls)	126.1	6.0	132.1
Natural Gas (Bcf)	684.7	35.4	720.1
Total (MMBoe)	240.2	11.9	252.1

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For illustrative purposes only, the following table sets forth summary unaudited pro forma information with respect to our and Dynamic's oil and natural gas production for the year ended December 31, 2011. This pro forma information differs from our and Dynamic's actual production and does not purport to represent what such production would have been if the transactions described in the notes to the table had occurred on or before December 31, 2010. For convenience, we also present the mathematical combination of our and Dynamic's pro forma oil and natural gas production. This combined number does not purport to represent what our oil and natural gas production would have been if the Dynamic acquisition had occurred on or before January 1, 2011.

	<b>Production for the Year Ended December 31, 2011</b>		
	<b>SandRidge Pro Forma<sup>(1)</sup></b>	<b>Dynamic Pro Forma<sup>(2)</sup></b>	<b>Combined<sup>(3)</sup></b>
Oil (MBbls)	11,670 <sup>(4)</sup>	4,340	16,010
Natural Gas (MMcf)	61,820	28,109 <sup>(4)</sup>	89,929
Total (MBoe)	21,973	9,025	30,998
Average daily total volumes (MBoe/d)	60.2	24.7	84.9

- (1) The pro forma SandRidge production data provided in this column gives effect to our November 2011 sale of certain natural gas assets in four counties in east Texas as if such disposition had occurred on December 31, 2010.
- (2) The pro forma Dynamic production data provided in this column includes production from the XTO Properties as if Dynamic had acquired the XTO Properties on December 31, 2010.
- (3) The combined production data provided in this column gives effect to the pro forma adjustments to our and Dynamic's 2011 production data that are referenced in footnotes 1 and 2 to this table.
- (4) Includes natural gas liquids.

**Caution Concerning Forward-Looking Statements**

*This Current Report on Form 8-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements express a belief, expectation or intention and are generally accompanied by words that convey projected future events or outcomes. The forward-looking statements include statements relating to when the Company expects to close the proposed transaction. These forward-looking statements are based on the Company's current expectations and assumptions and analyses made in light of the Company's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate under the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties, including the availability and terms of capital, and other factors, many of which are beyond the Company's control. Please see the discussion of risk factors in the our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011 filed with the SEC. All of the forward-looking statements made in this Current Report on Form 8-K are qualified by these cautionary statements. Such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements.*

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Member of

Dynamic Offshore Resources, LLC

We have audited the accompanying consolidated balance sheets of Dynamic Offshore Resources, LLC (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, cash flows and owners' equity for the years ended December 31, 2011, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dynamic Offshore Resources, LLC as of December 31, 2011 and 2010 and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2011, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

Hein & Associates LLP

Houston, Texas

March 29, 2012

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**Table of Contents****DYNAMIC OFFSHORE RESOURCES, LLC****CONSOLIDATED BALANCE SHEETS**

(In thousands)

	December 31,	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 58,696	\$ 75,162
Accounts receivable third parties	92,635	57,796
Accounts receivable affiliates	4	6
Insurance receivable		933
Derivative assets	44,471	11,990
Current portion of notes receivable abandonments	3,843	4,922
Other current assets	21,834	15,789
Total current assets	221,483	166,598
Property and equipment:		
Oil and gas properties, successful efforts method	1,728,289	1,220,407
Other property and equipment	4,073	3,223
Accumulated depreciation, depletion and amortization	(532,951)	(358,985)
Property and equipment, net	1,199,411	864,645
Long-term derivative assets	9,953	4,919
Notes receivable abandonments	17,108	15,274
Other assets	15,814	15,695
Total assets	\$ 1,463,769	\$ 1,067,131
<b>Liabilities and Owners Equity</b>		
Current liabilities:		
Accounts payable third parties	\$ 65,488	\$ 26,846
Accounts payable affiliates	601	50
Current portion of asset retirement obligations	51,133	71,225
Other current liabilities	83,952	56,780
Total current liabilities	201,174	154,901
Long-term debt	365,000	203,205
Asset retirement obligations	326,483	161,845