

SandRidge Mississippian Trust II
Form 10-Q
August 08, 2017
[Table of Contents](#)

**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 June 30, 2017

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: 001-35508

SANDRIDGE MISSISSIPPIAN TRUST II

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

30-0709968

(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) 236-6555

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of August 1, 2017, 49,725,000 Common Units of Beneficial Interest in SandRidge Mississippian Trust II were outstanding.

Table of Contents

SANDRIDGE MISSISSIPPIAN TRUST II

FORM 10-Q

Quarter Ended June 30, 2017

	<u>PART I. FINANCIAL INFORMATION</u>	4
<u>ITEM 1.</u>	<u>Financial Statements (Unaudited)</u>	4
	<u>Statements of Assets and Trust Corpus</u>	4
	<u>Statements of Distributable Income</u>	5
	<u>Statements of Changes in Trust Corpus</u>	6
	<u>Notes to Financial Statements</u>	7
<u>ITEM 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	18
	<u>PART II. OTHER INFORMATION</u>	19
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	19
<u>ITEM 1A.</u>	<u>Risk Factors</u>	19
<u>ITEM 6.</u>	<u>Exhibits</u>	19

All references to "we," "us," "our," or the "Trust" refer to SandRidge Mississippian Trust II. 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 Mississippian formation in northern Oklahoma and southern Kansas and held by the Trust are referred to as the "Royalty Interests."

Table of Contents

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 "Management'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, 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, foresee, 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, 2016 (the "2016 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.

Table of Contents

PART I. Financial Information

ITEM 1. Financial Statements

SANDRIDGE MISSISSIPPIAN TRUST II

STATEMENTS OF ASSETS AND TRUST CORPUS

(In thousands, except unit data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	\$ 1,883	\$ 1,945
Investment in royalty interests	467,146	467,146
Less: accumulated amortization and impairment	(419,801)	(347,132)
Net investment in royalty interests	47,345	120,014
Total assets	\$ 49,228	\$ 121,959
TRUST CORPUS		
Trust corpus, 49,725,000 common units issued and outstanding at June 30, 2017 and December 31, 2016	\$ 49,228	\$ 121,959

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

Table of Contents**SANDRIDGE MISSISSIPPIAN TRUST II****STATEMENTS OF DISTRIBUTABLE INCOME****(In thousands, except unit and per unit data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Unaudited)			
Revenues				
Royalty income	\$ 4,496	\$ 3,643	\$ 8,631	\$ 8,582
Derivative settlements, net		1,232		4,330
Total revenues	4,496	4,875	8,631	12,912
Expenses				
Post-production expenses	420	529	877	1,121
Property taxes	60	193	60	193
Production taxes	198	95	364	199
Trust administrative expenses	365	344	879	1,002
Cash reserves withheld (used) for current Trust expenses, net of amounts (used) withheld	12	(56)	(93)	(194)
Total expenses	1,055	1,106	2,087	2,321
Distributable income available to unitholders	3,441	3,769	6,544	10,591
Distributable income per common unit (37,293,750 units issued and outstanding for the 2016 period, 49,725,000 units issued and outstanding for the 2017 period)	\$ 0.069	\$ 0.101	\$ 0.131	\$ 0.284
Distributable income per subordinated unit (12,431,250 units issued and outstanding for the 2016 period, 0 units issued and outstanding for the 2017 period)	\$	\$ 0.000	\$	\$ 0.000

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

Table of Contents

SANDRIDGE MISSISSIPPIAN TRUST II
STATEMENTS OF CHANGES IN TRUST CORPUS

(In thousands)

	Six Months Ended June 30,	
	2017	2016
	(Unaudited)	
Trust corpus, beginning of period	\$ 121,959	\$ 135,877
Amortization of investment in royalty interests	(4,634)	(5,872)
Impairment of investment in royalty interests	(68,034)	
Net cash reserves used	(93)	(194)
Distributable income	6,544	10,591
Distributions paid to unitholders	(6,514)	(10,591)
Trust corpus, end of period	\$ 49,228	\$ 129,811

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

Table of Contents

SANDRIDGE MISSISSIPPIAN TRUST II

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

1. Organization of Trust

SandRidge Mississippian Trust II (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 the Mississippian formation in Alfalfa, Grant, Kay, Noble and Woods counties in northern Oklahoma and Barber, Comanche, Harper and Sumner counties in southern Kansas (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 April 2012. As consideration for conveyance of the Royalty Interests, the Trust remitted the proceeds of the offering, along with 7,393,750 Trust common units and 12,431,250 Trust subordinated units, to certain wholly owned subsidiaries of SandRidge. At June 30, 2017, SandRidge owned 18,675,000 Trust units, or approximately 37.6% of all Trust units.

The Trust is passive in nature and neither the Trust nor the Trustee has any control over, or responsibility for, any operating or capital costs related to the Underlying Properties. The business and affairs of the Trust are administered by the Trustee. The trust agreement generally limits the Trust's business activities to owning the Royalty Interests and activities reasonably related thereto, including activities required or permitted by the terms of the conveyances related to the Royalty Interests.

The Trust makes quarterly cash distributions of substantially all of its cash receipts, after deducting amounts for the Trust's administrative expenses, property tax and cash reserves withheld by the Trustee, on or about the 60th day 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.

On April 1, 2016, the subordinated units, initially issued to SandRidge, automatically converted into common units on a one-for-one basis as a result of SandRidge having met its drilling obligation to the Trust in March 2015. Prior to this conversion, the common and subordinated units had identical rights and privileges, except with respect to their rights to receive distributions.

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

Prior to their conversion to common units, the subordinated units, all of which were held by SandRidge, constituted 25% of the Trust units issued and were entitled to receive pro rata distributions from the Trust each quarter if and to the extent there was sufficient cash to provide a cash distribution on the common units that was no less than 80% of the target distribution for the corresponding quarter (Subordination Threshold). If there was not sufficient cash to fund such a distribution on all of the common units, the distribution made with respect to the subordinated units was 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. As owner of the subordinated units, SandRidge was 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 exceeded 120% of the target distribution for such quarter (Incentive Threshold). As a result of the conversion of the subordinated units to common units in April 2016, SandRidge's right to receive incentive distributions in respect of subsequent periods terminated. Beginning with the Trust's August 2016 distribution, distributions made on common units no longer have the benefit of the Subordination Threshold, nor are the common units subject to the Incentive Threshold, and all Trust unitholders share on a pro rata basis in the Trust's distributions.

The Trust will dissolve and begin to liquidate on December 31, 2031 (the Termination Date) and will soon thereafter wind up its affairs and terminate. At the Termination Date, 50% of the Royalty Interests will revert automatically to SandRidge. The remaining 50% of the Royalty Interests will be sold at that time, with the net proceeds of the sale, as well as any remaining Trust cash reserves, distributed to the unitholders on a pro rata basis. SandRidge has a right of first refusal to purchase the Royalty Interests retained by the Trust at the Termination Date. The Trust will not dissolve until the Termination Date unless any of the following occurs: (a) the Trust sells all of the Royalty Interests; (b) cash available for distribution for any four consecutive quarters, on a cumulative basis, is less than \$5.0 million; (c) Trust unitholders approve an earlier dissolution of the Trust; or (d) the Trust is judicially dissolved. In the case of any of the foregoing, the Trustee would then sell all of the Trust's assets, either by private sale or public auction, and distribute the net proceeds of the sale to the Trust unitholders after payment, or reasonable provision for payment, of all Trust liabilities.

Table of Contents

SANDRIDGE MISSISSIPPIAN TRUST II

NOTES TO FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 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.

Impairment of Investment in Royalty Interests. On a quarterly basis, the Trust evaluates the carrying value of the Investment in Royalty Interests by comparing the undiscounted cash flows expected to be realized from the Royalty Interests to the carrying value. If the expected future undiscounted cash flows are less than the carrying value, the Trust recognizes an impairment loss for the difference between the carrying value and the estimated fair value of the Royalty Interests, which is determined using future cash flows of the net oil, natural gas and natural gas liquids (NGL) reserves attributable to the Royalty Interests, discounted at a rate based upon the weighted average cost of capital of publicly traded royalty trusts. The weighted average cost of capital is based upon inputs that are readily available in the public market. The future cash flows of the net oil, natural gas and NGL reserves attributable to the Royalty Interests utilizes the oil and natural gas futures prices readily available in the public market adjusted for differentials and estimated quantities of oil, natural gas and NGL reserves that geological and engineering data demonstrate, with reasonable

certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions. As there are numerous uncertainties inherent in estimating quantities of proved reserves, these quantities are a significant unobservable input resulting in the fair value measurement being considered a level 3 measurement within the fair value hierarchy. During the six-month period ended June 30, 2017, the Trust recognized a \$68.0 million impairment in the carrying value of the Investment in Royalty Interests. There were no impairments in the carrying value of the Investment in Royalty Interests during the six-month period ended June 30, 2016. Material write-downs in subsequent periods may occur if commodity prices decline. Any impairment would result in a non-cash charge to trust corpus and would not affect the Trust's distributable income. See *Risks and Uncertainties* in Note 5 below for further discussion.

Distributable Income Per Common and Subordinated Unit. For the periods prior to the conversion of the Trust's subordinated units to common units, the Trust calculated 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 were 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 statements 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 novated derivative contracts. See Note 4 for discussion of the Trust's derivative contracts. Beginning with the Trust's August 2016 distribution, distributions made on common units no longer have the benefit of the Subordination Threshold, nor are the common units subject to the Incentive Threshold, and all Trust unitholders share on a pro rata basis in the Trust's distributions.

Interim Financial Statements. The accompanying unaudited interim financial statements have been prepared in accordance with the accounting policies stated in the audited financial statements contained in the 2016 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, 2016 has been derived from audited financial statements. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in the 2016 Form 10-K.

[Table of Contents](#)**SANDRIDGE MISSISSIPPIAN TRUST II****NOTES TO FINANCIAL STATEMENTS - CONTINUED****(Unaudited)****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, property tax and cash reserves withheld by the Trustee, on or about the 60th day 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 August 2017. A summary of the Trust's distributions to unitholders during the six-month period ended June 30, 2017 and the year ended December 31, 2016 is as follows:

	Covered Production Period	Date Declared	Date Paid	Total Distribution Paid (in millions)	Distribution Per Unit Common	Distribution Per Unit Subordinated
Calendar Quarter 2017						
First Quarter	September 1, 2016 November 30, 2016	January 26, 2017	February 24, 2017	\$ 3.1	\$ 0.062	N/A
Second Quarter	December 1, 2016 February 28, 2017	April 27, 2017	May 26, 2017	\$ 3.4	\$ 0.069	N/A

	Covered Production Period	Date Declared	Date Paid	Total Distribution Paid (in millions)	Distribution Per Unit Common	Distribution Per Unit Subordinated
Calendar Quarter 2016						
First Quarter	September 1, 2015 November 30, 2015	January 28, 2016	February 26, 2016	\$ 6.8	\$ 0.183	\$ 0.000
Second Quarter	December 1, 2015 February 29, 2016	April 28, 2016	May 27, 2016	\$ 3.8	\$ 0.101	\$ 0.000
Third Quarter	March 1, 2016 May 31, 2016	July 28, 2016	August 26, 2016	\$ 2.6	\$ 0.053	N/A
Fourth Quarter	June 1, 2016 August 31, 2016	October 27, 2016	November 25, 2016	\$ 2.9	\$ 0.058	N/A

4. Related Party Transactions

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

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 January 2018. The Trustee's administrative fees paid during each of the three-month periods ended June 30, 2017 and 2016 totaled approximately \$38,000. The Trustee's administrative fees paid during each of the six-month periods ended June 30, 2017 and 2016 totaled approximately \$75,000.

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. The holders have the right to require the Trust to file no more than five registration statements in aggregate, none of which has been filed to date. The Trust does not bear any expenses associated with such transactions.

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 performed by SandRidge on behalf of the Trust. For its services under the administrative services agreement, SandRidge receives an annual fee of \$300,000, which is payable in equal quarterly installments and will remain fixed for the life of the Trust. SandRidge is also entitled to receive reimbursement for its out-of-pocket fees, costs and expenses incurred in connection with the provision of any of the services under this agreement. The administrative services agreement will terminate on the earliest to occur of: (i) the date the Trust shall have dissolved and commenced winding up in accordance with the trust agreement, (ii) the date that all of the Royalty Interests have been terminated or are no longer held by the Trust, (iii) pertaining to services to be provided with respect to any Underlying Properties transferred by SandRidge, the date that either SandRidge or the Trustee may designate by delivering 90-days prior written notice, provided that 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. During each of the three-month periods ended June 30, 2017 and 2016, the Trust paid administrative fees to SandRidge equal to \$75,000. There were no amounts paid to SandRidge during the three-month period ended March 31, 2016, as the related quarterly administrative fee was paid during a prior period. Administrative fees paid to SandRidge for the six-month periods ended June 30, 2017 and 2016 totaled \$150,000 and \$75,000, respectively.

Table of Contents

SANDRIDGE MISSISSIPPIAN TRUST II

NOTES TO FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Derivatives Agreement. The Trust and SandRidge were parties to a derivatives agreement that provided the Trust with the economic effect of certain derivative contracts entered into by SandRidge with third parties for production through December 31, 2015. The Trust's derivative contracts consisted of fixed price swaps. The derivatives agreement terminated in 2015. The Trust does not have the ability to enter into additional derivative contracts.

5. Commitments and Contingencies

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, at the Trustee's request, 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 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 June 30, 2017 or December 31, 2016.

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 served to mitigate a portion of the effect of this price volatility associated with production through December 31, 2015. Low levels of future production, continued low commodity prices and the absence of any derivative arrangements would continue to reduce the Trust's revenues and distributable income available to unitholders.

The Trust is highly dependent on its Trustor, SandRidge, for multiple services, including the operation of the Trust wells, remittance of net proceeds from the sale of associated production to the Trust, administrative services such as accounting, tax preparation, bookkeeping and informational services performed on behalf of the Trust. The ability to operate the properties depends on the Trustor's future financial condition and economic performance, access to capital, and other factors, many of which are out of the control of the Trustor. On May 16, 2016, the

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

Trustor and certain of its direct and indirect subsidiaries (collectively, the Debtors) filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of Texas (the Bankruptcy Court) under the caption In re: SandRidge Energy Inc., et al. On September 20, 2016, the Bankruptcy Court entered an amended order confirming the Amended Joint Chapter 11 Plan of Reorganization dated September 19, 2016 (the Plan), as modified by the Confirmation Order (the Amended Confirmation Order), and on October 4, 2016, the Plan became effective in accordance with its terms and the Debtors emerged from the Chapter 11 Cases. On September 23, 2016, an informal group of former SandRidge shareholders appealed the Amended Confirmation Order. On February 22, 2017, the district court before which the appeal was pending entered an order approving a stipulation to voluntarily dismiss the appeal with prejudice.

Legal Proceedings. On June 9, 2015, the Duane & Virginia Lanier Trust, on behalf of itself and all other similarly situated unitholders of the Trust, filed a putative class action complaint in the U.S. District Court for the Western District of Oklahoma against the Trust, SandRidge and certain current and former executive officers of SandRidge, among other defendants (the Securities Litigation). The complaint asserts a variety of federal securities claims on behalf of a putative class of (a) purchasers of common units of SandRidge Mississippian Trust I in or traceable to its initial public offering on or about April 7, 2011, and (b) purchasers of common units of the Trust in or traceable to its initial public offering on or about April 17, 2012. The claims are based on allegations that SandRidge and certain of its current and former officers and directors, among other defendants, including the Trust, are responsible for making false and misleading statements, and omitting material information, concerning a variety of subjects, including oil and gas reserves. The plaintiffs seek class certification, an order rescinding the Trust's initial public offering and an unspecified amount of damages, plus interest, attorneys' fees and costs. As a result of its reorganization in bankruptcy in 2016, SandRidge is a nominal defendant only.

Regardless of the outcome of the litigation, the Trust may incur expenses in defending the litigation, and any such expenses may increase the Trust's administrative expenses significantly. However, the Trust is entitled to contractual indemnification covering reasonable costs of investigation and attorney's fees and expenses that the Trust believes will be applicable. The Trust will estimate, and if the Trustee deems it appropriate, begin reserving funds for potential losses that may arise out of litigation to the extent that such

Table of Contents**SANDRIDGE MISSISSIPPIAN TRUST II****NOTES TO FINANCIAL STATEMENTS - CONTINUED****(Unaudited)**

losses are probable and can be reasonably estimated. Significant judgment will be required in making any such estimates and any final liabilities of the Trust may ultimately be materially different than any estimates. The Trust is currently unable to assess the probability of loss or estimate a range of any potential loss the Trust may incur in connection with the Securities Litigation, and has not established any reserves relating to the Securities Litigation. The Trust may withhold estimated amounts from future distributions to cover future costs associated with the litigation if determined necessary. The Trust has not yet fully analyzed any rights it may have to indemnities that may be applicable or any claims it may make in connection with the Securities Litigation.

6. Subsequent Events

Distribution to Unitholders. On July 27, 2017, the Trust declared a cash distribution of \$0.050 per unit covering production for the three-month period from March 1, 2017 to May 31, 2017. The distribution will be paid on or about August 25, 2017 to record holders as of August 11, 2017. Distributable income for March 1, 2017 to May 31, 2017 was calculated as follows (in thousands, except for unit and per unit amounts):

Revenues		
Royalty income	\$	3,495
Total revenues		3,495
Expenses		
Post-production expenses		416
Production taxes		185
Cash reserves withheld by Trustee(1)		437
Total expenses		1,038
Distributable income available to unitholders	\$	2,457
Distributable income per unit (49,725,000 units issued and outstanding)	\$	0.050

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

Table of Contents

ITEM 2. *Management'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 financial condition, results of operations, liquidity and capital resources of SandRidge Mississippian Trust II (the "Trust"). This discussion and analysis should be read in conjunction with the Trust's unaudited interim 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 2016 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 Trust's derivative contracts (described in Note 4 to the unaudited interim 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, prior to their termination, the Trust's derivative contracts. The Trust is treated as a partnership for federal income tax purposes.

Commodity Price Volatility. The Trust's quarterly cash distributions are highly dependent upon the prices realized from the sale of oil, natural gas and NGL. The markets for these commodities are volatile and have experienced significant pricing declines since the latter half of 2014. Although distributions relating to production through December 31, 2015 were partially supported by hedging arrangements, no such arrangements are in place for production attributable to periods thereafter, and consequently distributions should be expected to be lower than distributions for production periods that ended prior to January 1, 2016. The Trust received net settlement proceeds of approximately \$1.2 million and approximately \$4.3 million during the three- and six-month periods ended June 30, 2016, respectively.

During the six-month period ended June 30, 2017, the Trust recognized a \$68.0 million impairment in the carrying value of the Investment in Royalty Interests. The impairment resulted in a non-cash charge to trust corpus and did not affect the Trust's distributable income. There were no impairments in the carrying value of the Investment in Royalty Interests during 2016. Material write-downs in subsequent periods may occur if commodity prices decline. See "Impairment of Investment in Royalty Interests" in Note 2 to the unaudited interim financial statements contained in Part I, Item 1 of this Quarterly Report for further discussion of the impairments.

As of March 31, 2015, SandRidge had fulfilled its drilling obligation to the Trust. Accordingly, on April 1, 2016, the subordinated units automatically converted into common units and distributions made on common units in respect of subsequent periods no longer have the benefit of the Subordination Threshold.

Properties. As of June 30, 2017, the Trust's properties consisted of Royalty Interests in oil and natural gas wells located in northern Oklahoma and southern Kansas.

Distributions. The Trust makes quarterly cash distributions of substantially all of its cash receipts, after deducting amounts for the Trust's administrative expenses, property tax and cash reserves withheld by the Trustee, on or about the 60th day following the completion of each quarter. Prior to their conversion to common units in April 2016, the Trust's subordinated units were entitled to receive pro rata distributions from the Trust each quarter, up to and including the May 2016 distribution, if and to the extent there was sufficient cash to provide a cash distribution on the common units that was at least equal to the Subordination Threshold. If there was not sufficient cash to fund such a distribution on all of the common units (including the common units SandRidge owned), the distribution made with respect to the subordinated units was 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 was no minimum distribution. If the cash available for distribution on all of the Trust units in any quarter exceeded the Incentive Threshold for the corresponding quarter, SandRidge, as holder of the Trust's subordinated units, was entitled to 50% of the amount by which the cash available for distribution exceeded the Incentive Threshold. As a result of the conversion of the subordinated units to common units in April 2016, SandRidge's right to receive incentive distributions in respect of subsequent periods terminated. Beginning with the Trust's August 2016 distribution, distributions made to common units no longer have the benefit of the Subordination Threshold, nor are the common units subject to the Incentive Threshold, and the holders of all 49,725,000 common units share in the Trust's distributions on a pro rata basis.

Table of Contents

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.

Litigation. As described in more detail in Item 1 of Part II, *Legal Proceedings*, claims were brought against the Trust, SandRidge and others in a putative class action during 2015. Regardless of the outcome of the litigation, the Trust may incur expenses in defending the litigation, and any such expenses may increase the Trust's administrative expenses significantly. However, the Trust is entitled to contractual indemnification covering reasonable costs of investigation and attorney's fees and expenses that the Trust believes will be applicable.

Results of Trust Operations

The primary factors affecting the Trust's revenues and costs are the quantity of oil, natural gas and NGL production attributable to the Royalty Interests, the prices received for such production and amounts paid or received as net settlements under the derivatives agreement during its term. 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 or paid to the Trust's derivative counterparties. Information regarding the Trust's production, pricing and costs for the three- and six-month periods ended June 30, 2017 and 2016 is presented below.

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017(1)	2016(2)	2017(3)	2016(4)
Production Data				
Oil (MBbls)	25	46	56	97
NGL (MBbls)	57	66	120	130
Natural gas (MMcf)	706	910	1,465	1,891
Combined equivalent volumes (MBoe)	200	263	420	542
Average daily combined equivalent volumes (MBoe/d)	2.2	2.9	2.3	3.0
Well Data				
Initial and Trust Development Wells producing - average	171	203	173	205
Revenues (in thousands)				
Royalty income	\$ 4,496	\$ 3,643	\$ 8,631	\$ 8,582
Derivative settlements		1,232		4,330
Total revenue	\$ 4,496	\$ 4,875	\$ 8,631	\$ 12,912
Expenses (in thousands)				
Post-production expenses	\$ 420	\$ 529	\$ 877	\$ 1,121
Property taxes	60	193	60	193
Production taxes	198	95	364	199
Trust administrative expenses	365	344	879	1,002
Cash reserves withheld (used) for current Trust expenses, net of amounts (used) withheld	12	(56)	(93)	(194)
Total expenses	\$ 1,055	\$ 1,106	\$ 2,087	\$ 2,321
Distributable income available to unitholders	\$ 3,441	\$ 3,769	\$ 6,544	\$ 10,591
Average Prices				
Oil (per Bbl)	\$ 50.17	\$ 29.02	\$ 47.65	\$ 35.56
NGL (per Bbl)	\$ 19.83	\$ 9.68	\$ 17.41	\$ 11.36
Combined oil and NGL (per Bbl)	\$ 29.17	\$ 17.67	\$ 27.04	\$ 21.75
Natural gas (per Mcf)	\$ 2.98	\$ 1.83	\$ 2.65	\$ 1.93
Combined equivalent (per Boe)	\$ 22.52	\$ 13.83	\$ 20.56	\$ 15.83
Average Prices including impact of post-production expenses				
Oil (per Bbl)(5)	\$ 50.17	\$ 55.73	\$ 47.65	\$ 80.00
NGL (per Bbl)	\$ 19.83	\$ 9.68	\$ 17.41	\$ 11.36
Combined oil and NGL (per Bbl)	\$ 29.17	\$ 28.69	\$ 27.04	\$ 40.83
Natural gas (per Mcf)	\$ 2.39	\$ 1.25	\$ 2.05	\$ 1.34
Combined equivalent (per Boe)	\$ 20.41	\$ 16.50	\$ 18.47	\$ 21.75
Expenses (per Boe)				
Post-production	\$ 2.11	\$ 2.01	\$ 2.09	\$ 2.07
Production taxes	\$ 0.99	\$ 0.36	\$ 0.87	\$ 0.37

(1) Production volumes and related revenues and expenses for the three-month period ended June 30, 2017 (included in SandRidge's May 2017 net revenue distribution to the Trust) represent production from December 1, 2016 to February 28, 2017.

- (2) Production volumes and related revenues and expenses for the three-month period ended June 30, 2016 (included in SandRidge's May 2016 net revenue distribution to the Trust) represent production from December 1, 2015 to February 29, 2016.
- (3) Production volumes and related revenues and expenses for the six-month period ended June 30, 2017 (included in SandRidge's February 2017 and May 2017 net revenue distributions to the Trust) represent production from September 1, 2016 to February 28, 2017.
- (4) Production volumes and related revenues and expenses for the six-month period ended June 30, 2016 (included in SandRidge's February 2016 and May 2016 net revenue distributions to the Trust) represent production from September 1, 2015 to February 29, 2016.
- (5) Includes impact of derivative settlements attributable to production from December 1, 2015 to December 31, 2015 for the three-month period ended June 30, 2016 and from September 1, 2015 to December 31, 2015 for the six-month period ended June 30, 2016.

Table of Contents

Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016

Revenues

Royalty Income. Royalty income received during the three-month period ended June 30, 2017 totaled \$4.5 million compared to \$3.6 million received during the three-month period ended June 30, 2016. Royalty income is a function of production volumes sold attributable to the Royalty Interests and associated prices received. The approximate \$0.9 million increase in royalty income consisted of approximately \$1.9 million attributable to the increase in prices received, partially offset by approximately \$1.0 million attributable to a decrease in total volumes produced. The average number of producing wells in the three-month period ended June 30, 2017 decreased by 32 from the three-month period ended June 30, 2016 because wells that could not economically produce due to continued depressed pricing and declining production were shut-in.

Derivative Settlements. The Trust's derivatives agreement with SandRidge reduced the Trust's exposure to commodity price volatility attributable to a portion of production from the Royalty Interests through December 31, 2015 by the use of oil fixed price swaps. Net cash settlements received under the derivatives agreement for the three-month period ended June 30, 2016 for production from December 1, 2015 to December 31, 2015 were approximately \$1.2 million. This effectively increased the average price received for oil by \$26.71 per Bbl, to \$55.73 per Bbl, for the 2016 period. Derivative settlements received during the three-month period ended June 30, 2016 relating to December 2015 production were included in the Trust's May 2016 quarterly distribution, the last distribution to reflect a derivatives settlement following the derivatives agreement termination in 2015.

Expenses

Property Taxes. The Trust paid approximately \$60,000 of its \$145,000 2016 property tax assessment during the three-month period ended June 30, 2017. The Trust paid approximately \$193,000 of its \$399,000 2015 property tax assessment during the three-month period ended June 30, 2016.

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 June 30, 2017 totaled approximately \$0.2 million, or \$0.99 per Boe, and were approximately 4.4% of royalty income. Production taxes for the three-month period ended June 30, 2016 totaled approximately \$0.1 million, or \$0.36 per Boe, and were approximately 2.6% of royalty income. Production tax rates increased in the 2017 period due to Trust wells reaching the expiration point of a previously reduced tax rate. The average effective production tax rate for the Trust will continue to increase, up to a maximum rate of 7%, as more Trust wells reach this expiration point.

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 for the three-month period ended June 30, 2017 remained relatively consistent and totaled approximately \$0.4 million compared to approximately \$0.3 million for the three-month period ended June 30, 2016.

Distributable Income

Distributable income for the three-month period ended June 30, 2017 was \$3.4 million, which included a net addition to the cash reserve for payment of future Trust expenses of approximately \$12,000, reflecting approximately \$437,000 withheld from the May 2017 cash distribution to unitholders partially offset by approximately \$425,000 used to pay Trust expenses during the period. Distributable income for the three-month period ended June 30, 2016 was \$3.8 million, which included a net reduction to the cash reserve for payment of future Trust expenses of approximately \$56,000, reflecting approximately \$537,000 used to pay Trust expenses during the period partially offset by approximately \$481,000 withheld from the May 2016 cash distribution to unitholders.

Distributions to Holders of Common and Subordinated Units. Holders of Trust common units received greater distributions than holders of Trust subordinated units during the three-month period ended June 30, 2016 as a result of the Trust's subordination provisions. Because income available for distribution on all Trust units for the May 2016 distribution was below the Subordination Threshold, no distribution was paid to the subordinated units for the period. As a result of the subordination provisions, holders of common units received approximately \$0.9 million more in distributions for the three-month period ended June 30, 2016, than such holders would have received had the subordination provisions not existed. Beginning with the Trust's August 2016 distribution, distributions made on common units no longer have the benefit of the Subordination Threshold, nor are the common units subject to the Incentive Threshold, and all Trust unitholders share on a pro rata basis in the Trust's distributions.

Table of Contents

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

Revenues

Royalty Income. Royalty income received during the six-month period ended June 30, 2017 totaled \$8.6 million, which was effectively unchanged from the 2016 period. The current period reflected an approximate \$2.4 million increase in royalty income attributable to an increase in prices received, offset by an approximate \$2.4 million decrease attributable to total volumes produced. The average number of producing wells decreased by 32 during the six-month period ended June 30, 2017 compared to the six-month period ended June 30, 2016 because wells that could not economically produce due to continued depressed pricing and declining production were shut-in.

Derivative Settlements. During the six-month period ended June 30, 2016, the Trust received approximately \$4.3 million related to the conveyed derivative contracts for production attributable to the Royalty Interests from September 1, 2015 to December 31, 2015, which effectively increased the average price received for oil production for the related period by \$44.44 per Bbl, to \$80.00 per Bbl.

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 natural gas produced. Post-production expenses for the six-month periods ended June 30, 2017 decreased to approximately \$0.9 million from \$1.1 million for the three-month period ended June 30, 2016 as a result of decreased natural gas production.

Production Taxes. Production taxes for the six-month period ended June 30, 2017 totaled approximately \$0.4 million, or \$0.87 per Boe, and were approximately 4.2% of royalty income. Production taxes for the six-month period ended June 30, 2016 totaled approximately \$0.2 million, or \$0.37 per Boe, and were approximately 2.3% of royalty income. Production tax rates increased due to Trust wells reaching the expiration point of a previously reduced tax rate.

Trust Administrative Expenses. Trust administrative expenses for the six-month period ended June 30, 2017 remained relatively consistent and totaled approximately \$0.9 million compared to approximately \$1.0 million for the six-month period ended June 30, 2016.

Distributable Income

Distributable income for the six-month period ended June 30, 2017 was \$6.5 million, which included a net reduction to the cash reserve for payment of future Trust expenses of approximately \$0.1 million, reflecting approximately \$0.9 million used to pay Trust expenses during the period partially offset by approximately \$0.8 million withheld in aggregate from the February 2017 and May 2017 cash distributions to unitholders. Distributable income for the six-month period ended June 30, 2016 was \$10.6 million, which included a net reduction to the cash reserve for payment of future Trust expenses of approximately \$0.2 million, reflecting approximately \$1.2 million used to pay Trust expenses during the period partially offset by approximately \$1.0 million withheld in aggregate from the February 2016 and May 2016 cash distributions to unitholders.

Distributions to Common and Subordinated Units. Holders of Trust common units received greater distributions than holders of Trust subordinated units during the six-month period ended June 30, 2016 as a result of the Trust's subordination provisions. Because income available for distribution on all Trust units for the May 2016 and February 2016 distributions was below the Subordination Threshold, no distributions were paid to the subordinated units for those periods. As a result of the subordination provisions, holders of common units received approximately \$2.6 million more in distributions for the six-month period ended June 30, 2016 than such holders would have received had the subordination provisions not existed.

Liquidity and Capital Resources

The Trust has no source of liquidity or capital resources other than cash flow generated from the Royalty Interests and borrowings to fund administrative expenses, including any amounts borrowed under SandRidge's loan commitment described in Note 5 to the unaudited interim financial statements contained in Part I, Item 1 of this Quarterly Report. The Trust's primary uses of cash are distributions to Trust unitholders, including, if applicable, 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

Table of Contents

out-of-pocket expenses incurred on behalf of the Trust. The Trust does not have any capital requirements related to drilling wells or any other operating or capital costs related to the wells.

Administrative expenses include payments to the Trustee and the Delaware Trustee as well as a quarterly fee of \$75,000 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 production attributable to the Royalty Interests that quarter over the Trust's expenses for the quarter. 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 June 30, 2017 or December 31, 2016.

The Trust is highly dependent on its Trustor, SandRidge, for multiple services, including the operation of the Trust wells, remittance of net proceeds from the sale of associated production to the Trust, administrative services such as accounting, tax preparation, bookkeeping and informational services performed on behalf of the Trust, and potentially for loans to pay Trust administrative expenses. The ability to operate the properties depends on the Trustor's future financial condition and economic performance, access to capital, and other factors, many of which are out of the control of the Trustor. On May 16, 2016, the Trustor and certain of its direct and indirect subsidiaries (collectively, the Debtors) filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of Texas (the Bankruptcy Court) under the caption In re: SandRidge Energy Inc., et al. On September 20, 2016, the Bankruptcy Court entered an amended order confirming the Amended Joint Chapter 11 Plan of Reorganization dated September 19, 2016 (the Plan), as modified by the Confirmation Order (the Amended Confirmation Order), and on October 4, 2016, the Plan became effective in accordance with its terms and the Debtors emerged from the Chapter 11 Cases. On September 23, 2016, an informal group of former SandRidge shareholders appealed the Amended Confirmation Order. On February 22, 2017, the district court before which the appeal was pending entered an order approving a stipulation to voluntarily dismiss the appeal with prejudice.

2017 Trust Distributions to Unitholders. During the six-month period ended June 30, 2017, the Trust's distributions to unitholders were as follows:

	Covered Production Period	Date Declared	Date Paid	Total Distribution Paid (in millions)
Calendar Quarter 2017				
First Quarter	September 1, 2016			
	November 30, 2016	January 26, 2017	February 24, 2017	\$ 3.1
Second Quarter	December 1, 2016			
	February 28, 2017	April 27, 2017	May 26, 2017	\$ 3.4

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

Future Trust Distributions to Unitholders. During the three-month production period from March 1, 2017 to May 31, 2017, combined sales volumes were slightly lower than the previous period and oil, natural gas and NGL prices decreased. On July 27, 2017, the Trust declared a cash distribution of \$0.050 per unit covering production for the period. The distribution will be paid on or about August 25, 2017 to record unitholders as of August 11, 2017 and was calculated as follows (in thousands, except for unit and per unit amounts):

Revenues		
Royalty income	\$	3,495
Total revenues		3,495
Expenses		
Post-production expenses		416
Production taxes		185
Cash reserves withheld by Trustee(1)		437
Total expenses		1,038
Distributable income available to unitholders	\$	2,457
Distributable income per unit (49,725,000 units issued and outstanding)	\$	0.050

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

Table of Contents

As the Trust cannot acquire or cause additional wells to be drilled on its behalf, the Trust's production is expected to decline each quarter during the remainder of its life.

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

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 production from the Underlying Properties, the Trust's most significant market risk relates to the prices received for oil, natural gas and NGL production. Revenue derived from the Royalty Interests, and therefore the amount of cash flow available for distribution to the Trust unitholders, depends substantially on prevailing oil, natural gas and NGL prices. Lower prices may also reduce the amount of oil, natural gas and NGL that can be economically produced from the Underlying Properties.

The Trust was party to a derivatives agreement with SandRidge that provided the Trust with the economic effect of certain oil derivative contracts for production through December 31, 2015 (which had effects extending into the May 2016 distribution to unitholders) and mitigated a portion of the variability of oil prices received for the Trust's share of production. The Trust received net settlement proceeds of approximately \$4.3 million related to the derivatives agreement during the six-month period ended June 30, 2016. The Trust no longer has the benefit of the derivative contracts, and therefore cash distributions are subject to unmitigated changes in oil and natural gas prices. The Trust does not have the ability to enter into additional derivative contracts.

ITEM 4. *Controls and Procedures*

Disclosure 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 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

Edgar Filing: SandRidge Mississippian Trust II - Form 10-Q

by SandRidge, including information relating to results of operations, 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.

Changes in Internal Control Over Financial Reporting

There were no changes in the Trust's internal control over financial reporting during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Trust'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.

Table of Contents

PART II. Other Information

ITEM 1. *Legal Proceedings*

On June 9, 2015, the Duane & Virginia Lanier Trust, on behalf of itself and all other similarly situated unitholders of the Trust, filed a putative class action complaint in the U.S. District Court for the Western District of Oklahoma against the Trust, SandRidge and certain current and former executive officers of SandRidge, among other defendants (the "Securities Litigation"). The complaint asserts a variety of federal securities claims on behalf of a putative class of (a) purchasers of common units of SandRidge Mississippian Trust I in or traceable to its initial public offering on or about April 7, 2011, and (b) purchasers of common units of the Trust in or traceable to its initial public offering on or about April 17, 2012. The claims are based on allegations that SandRidge and certain of its current and former officers and directors, among other defendants, including the Trust, are responsible for making false and misleading statements, and omitting material information, concerning a variety of subjects, including oil and gas reserves. The plaintiffs seek class certification, an order rescinding the Trust's initial public offering and an unspecified amount of damages, plus interest, attorneys' fees and costs. As a result of its reorganization in bankruptcy in 2016, SandRidge is a nominal defendant only.

Regardless of the outcome of the litigation, the Trust may incur expenses in defending the litigation, and any such expenses may increase the Trust's administrative expenses significantly. However, the Trust is entitled to contractual indemnification covering reasonable costs of investigation and attorney's fees and expenses that the Trust believes will be applicable. The Trust will estimate and, if the Trustee deems it appropriate, begin reserving funds for potential losses that may arise out of litigation to the extent that such losses are probable and can be reasonably estimated. Significant judgment will be required in making any such estimates and any final liabilities of the Trust may ultimately be materially different than any estimates. The Trust is currently unable to assess the probability of loss or estimate a range of any potential loss the Trust may incur in connection with the Securities Litigation, and has not established any reserves relating to the Securities Litigation. The Trust may withhold estimated amounts from future distributions to cover future costs associated with the litigation if determined necessary. The Trust has not yet fully analyzed any rights it may have to indemnities that may be applicable or any claims it may make in connection with the Securities Litigation.

ITEM 1A. *Risk Factors*

Risk factors relating to the Trust are contained in Item 1A of the 2016 Form 10-K. No material change to such risk factors has occurred during the three-month period ended June 30, 2017.

ITEM 6. *Exhibits*

See the Exhibit Index accompanying this Quarterly Report.

Table of Contents

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 MISSISSIPPIAN TRUST II

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

By: /s/ Sarah Newell
Sarah Newell
Vice President

Date: August 8, 2017

The Registrant, SandRidge Mississippian Trust II, 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.

Table of Contents

EXHIBIT INDEX

Exhibit		Incorporated by Reference				Filed
		SEC				
No.	Exhibit Description	Form	File No.	Exhibit	Filing Date	Herewith
3.1	Certificate of Trust of SandRidge Mississippian Trust II	S-1	333-178894	3.1	01/05/2012	
3.2	Amended and Restated Trust Agreement of SandRidge Mississippian Trust II, dated as of April 23, 2012, by and among SandRidge Energy, Inc., The Bank of New York Mellon Trust Company, N.A., and The Corporation Trust Company.	8-K	001-35508	4.1	04/24/2012	
3.3	Amendment No. 1 to Amended and Restated Trust Agreement of SandRidge Mississippian Trust II, dated June 18, 2012, by the Bank of New York Mellon Trust Company, N.A.	10-Q	001-35508	3.4	08/13/2012	
31.1	Section 302 Certification					*
32.1	Section 906 Certification					*