NGL Energy Partners LP
Form 10-Q
November 14, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2012

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: 001-35172

NGL Energy Partners LP

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**27-3427920** (I.R.S. Employer Identification No.)
6120 South Yale Avenue **Suite 805** **Tulsa, Oklahoma** (Address of Principal Executive Offices)	**74136** (Zip code)

(918) 481-1119

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company o

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

As of November 13, 2012, there were 47,960,480 common units and 5,919,346 subordinated units issued and outstanding.

Table of Contents

TABLE OF CONTENTS

PART I

Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Balance Sheets as of September 30, 2012 and March 31, 2012	3
	Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2012 and 2011	4
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months and six months ended September 30, 2012 and 2011	5
	Condensed Consolidated Statement of Changes in Partners Equity for the six months ended September 30, 2012	6
	Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and 2011	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	60
Item 4.	Controls and Procedures	61

PART II

Item 1.	Legal Proceedings	63
Item 1A.	Risk Factors	63
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	63
Item 3.	Defaults Upon Senior Securities	63
Item 4.	Mine Safety Disclosures	63
Item 5.	Other Information	63
Item 6.	Exhibits	64
Signatures		65
Exhibit Index		66

Table of Contents

Forward-Looking Statements

This quarterly report on Form 10-Q contains various forward-looking statements and information that are based on our beliefs and those of our general partner, as well as assumptions made by and information currently available to us. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. When used in this quarterly report, words such as anticipate, project, expect, plan, goal, forecast, estimate, intend, could, believe, may, will and similar expressions and statements regarding our p for future operations, are intended to identify forward-looking statements. Although we and our general partner believe that the expectations on which such forward-looking statements are based are reasonable, neither we nor our general partner can give assurances that such expectations will prove to be correct. Forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Among the key risk factors that may have a direct bearing on our results of operations and financial condition are:

- the prices and market demand for petroleum products;
- energy prices generally;
- the price of propane compared to the price of alternative and competing fuels;
- the general level of petroleum product demand and the availability of propane supplies;
- the level of domestic oil, propane and natural gas production;
- the availability of imported oil and natural gas;
- the ability to obtain adequate supplies of propane for retail sale in the event of an interruption in supply or transportation and the availability of capacity to transport propane to market areas;
- actions taken by foreign oil and gas producing nations;

- the political and economic stability of petroleum producing nations;
- the effect of weather conditions on demand for oil, natural gas and propane;
- the effect of natural disasters or other significant weather events;
- availability of local, intrastate and interstate transportation infrastructure;
- availability and marketing of competitive fuels;
- the impact of energy conservation efforts;
- energy efficiencies and technological trends;
- governmental regulation and taxation;
- the impact of legislative and regulatory actions on hydraulic fracturing;
- hazards or operating risks incidental to the transporting and distributing of petroleum products that may not be fully covered by insurance;
- the maturity of the propane industry and competition from other propane distributors;
- loss of key personnel;
- the ability to renew contracts with key customers;

- the ability of our customers to perform on their contracts with us;
- the fees we charge and the margins we realize for our terminal services;

Table of Contents

- the ability to renew leases for general purpose and high pressure rail cars;
- the ability to renew leases for underground storage;
- the nonpayment or nonperformance by our customers;
- the availability and cost of capital and our ability to access certain capital sources;
- a deterioration of the credit and capital markets;
- the ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to our financial results;
- the ability to successfully integrate acquired assets and businesses;
- changes in laws and regulations to which we are subject, including tax, environmental, transportation and employment regulations or new interpretations by regulatory agencies concerning such laws and regulations; and
- the costs and effects of legal and administrative proceedings.

You should not put undue reliance on any forward-looking statements. All forward-looking statements speak only as of the date of this quarterly report. Except as required by state and federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise. When considering forward-looking statements, please review the risks described under Part II Item 1A Risk Factors of this quarterly report and Item 1A Risk Factors in our annual report on Form 10-K for the fiscal year ended March 31, 2012, as supplemented and updated by Part II, Item 1A, Risk Factors in our quarterly report on Form 10-Q for the quarter ended June 30, 2012.

Table of Contents

PART I

Item 1. **Financial Statements (Unaudited)**

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Balance Sheets

As of September 30, 2012 and March 31, 2012

(U.S. Dollars in Thousands, except unit amounts)

	September 30, 2012	March 31, 2012 (Note 3)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,009	$ 7,832
Accounts receivable - trade, net of allowance for doubtful accounts of $1,356 and $818, respectively	385,494	84,004
Receivables from affiliates	3,238	2,282
Inventories	264,556	94,504
Prepaid expenses and other current assets	57,000	10,002
Total current assets	736,297	198,624
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $25,326 and $12,843, respectively	425,641	237,652
GOODWILL	515,881	170,647
INTANGIBLE ASSETS, net of accumulated amortization of $17,646 and $8,174, respectively	345,942	139,780
OTHER NONCURRENT ASSETS	5,658	2,766
Total assets	$ 2,029,419	$ 749,469
LIABILITIES AND PARTNERS EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 419,750	$ 81,369
Accrued expenses and other payables	68,724	14,143
Advance payments received from customers	74,814	20,293
Payables to affiliates	11,780	9,462
Current maturities of long-term debt	78,033	19,484
Total current liabilities	653,101	144,751
LONG-TERM DEBT, net of current maturities	569,903	199,177
OTHER NONCURRENT LIABILITIES	2,599	212
COMMITMENTS AND CONTINGENCIES		
PARTNERS EQUITY, per accompanying statement:		

General Partner 0.1% interest; 50,821 and 29,245 notional units outstanding, respectively		(51,052)		442
Limited Partners 99.9% interest				
Common units 44,850,439 and 23,296,253 units outstanding, respectively		839,977		384,604
Subordinated units 5,919,346 units outstanding at September 30, 2012 and March 31, 2012		11,784		19,824
Accumulated other comprehensive income				
Foreign currency translation		28		31
Noncontrolling interests		3,079		428
Total partners equity		803,816		405,329
Total liabilities and partners equity	$	2,029,419	$	749,469

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

Table of Contents

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Operations

Three Months and Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands, except unit and per unit amounts)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
REVENUES:				
Retail propane	$ 57,003	$ 19,225	$ 116,211	$ 32,077
Natural gas liquids logistics	350,368	190,816	541,985	368,809
Crude oil logistics	711,021		784,538	
Water services	15,810		17,751	
Other	1,308		1,461	
Total Revenues	1,135,510	210,041	1,461,946	400,886
COST OF SALES:				
Retail propane	29,666	13,208	67,107	21,314
Natural gas liquids logistics	328,283	188,246	512,328	366,113
Crude oil logistics	693,687		770,570	
Water services	2,054		2,670	
Total Cost of Sales	1,053,690	201,454	1,352,675	387,427
OPERATING COSTS AND EXPENSES:				
Operating	39,431	7,250	62,769	14,392
General and administrative	10,443	4,164	20,403	6,200
Depreciation and amortization	13,361	1,701	22,588	3,078
Operating Income (Loss)	18,585	(4,528)	3,511	(10,211)
OTHER INCOME (EXPENSE):				
Interest income	263	99	629	225
Interest expense	(8,692)	(1,012)	(12,492)	(2,313)
Loss on early extinguishment of debt			(5,769)	
Other, net	3	46	29	131
Income (Loss) Before Income Taxes	10,159	(5,395)	(14,092)	(12,168)
INCOME TAX PROVISION	(77)		(536)	
Net Income (Loss)	10,082	(5,395)	(14,628)	(12,168)
Net (Income) Loss Allocated to General Partner	(694)	5	(789)	12
Net (Income) Loss Attributable to Noncontrolling Interests	(9)		51	
Net Income (Loss) Attributable to Parent Equity Allocated to Limited Partners	$ 9,379	$ (5,390)	$ (15,366)	$ (12,156)
Basic and Diluted Earnings (Loss) Per Common Unit	$ 0.18	$ (0.36)	$ (0.37)	$ (0.88)

Basic and Diluted Earnings (Loss) per Subordinated Unit	$ 0.18	$ (0.36)	$ (0.38)	$ (0.88)
Basic and Diluted Weighted average units outstanding:				
Common	44,831,836	8,864,222	35,730,492	9,370,997
Subordinated	5,919,346	5,919,346	5,919,346	4,431,423

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

Table of Contents

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)

Three Months and Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Net income (loss)	$ 10,082	$ (5,395)	$ (14,628)	$ (12,168)
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment	10	(61)	(3)	(56)
Comprehensive income (loss)	$ 10,092	$ (5,456)	$ (14,631)	$ (12,224)

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

Table of Contents

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statement of Changes in Partners Equity

Six Months Ended September 30, 2012

(U.S. Dollars in Thousands, except unit amounts)

	General Partner	Limited Partners Common Units	Limited Partners Amount	Limited Partners Subordinated Units	Limited Partners Amount	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Partners Equity
BALANCES, MARCH 31, 2012	$ 442	23,296,253	$ 384,604	5,919,346	$ 19,824	$ 31	$ 428	$ 405,329
Distributions to partners	(144)		(18,151)		(4,588)			(22,883)
Contributions	449						302	751
Business combinations (Note 3)	(52,588)	21,554,186	486,256				2,400	436,068
Equity issuance costs			(818)					(818)
Net income (loss)	789		(11,914)		(3,452)		(51)	(14,628)
Foreign currency translation adjustment						(3)		(3)
BALANCES, SEPTEMBER 30, 2012	$ (51,052)	44,850,439	$ 839,977	5,919,346	$ 11,784	$ 28	$ 3,079	$ 803,816

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

Table of Contents

NGL ENERGY PARTNERS LP

Unaudited Condensed Consolidated Statements of Cash Flows

Six Months Ended September 30, 2012 and 2011

(U.S. Dollars in Thousands)

	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
OPERATING ACTIVITIES:		
Net loss	$ (14,628)	$ (12,168)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization, including debt issuance cost amortization	31,245	4,133
Gain on sale of assets	(23)	(46)
Provision for doubtful accounts	356	109
Commodity derivative gain	(5,019)	(465)
Other	72	79
Changes in operating assets and liabilities, exclusive of acquisitions		
Accounts receivable	101,739	(10,821)
Receivables from affiliates	6,768	
Inventories	(121,981)	(94,588)
Product exchanges, net	12,663	8,856
Prepaid expenses and other assets	4,097	209
Trade accounts payable	(77,965)	25,492
Accrued expenses and other liabilities	(25,674)	1,001
Accounts payable to affiliates	(6,698)	
Advance payments received from customers	42,242	25,417
Net cash used in operating activities	(52,806)	(52,792)
INVESTING ACTIVITIES:		
Purchases of long-lived assets	(14,595)	(2,094)
Cash paid for acquisitions of businesses, including acquired working capital, net of cash acquired	(307,082)	(2,190)
Cash flows from commodity derivatives	10,692	1,327
Proceeds from sales of assets	581	182
Other	427	(92)
Net cash used in investing activities	(309,977)	(2,867)
FINANCING ACTIVITIES:		
Proceeds from sale of common units, net of offering costs	(818)	75,289
Repurchase of common units		(3,418)
Proceeds from borrowings under revolving credit facilities	594,675	98,000
Payments on revolving credit facilities	(422,675)	(113,000)
Issuance of senior notes	250,000	
Payments on other long-term debt	(251)	(979)
Debt issuance costs	(17,839)	(1,932)
Contributions	751	85
Distributions to partners	(22,883)	(6,320)
Net cash provided by financing activities	380,960	47,725
Net increase (decrease) in cash and cash equivalents	18,177	(7,934)
Cash and cash equivalents, beginning of period	7,832	16,337

Cash and cash equivalents, end of period	$	26,009	$	8,403

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

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Note 1 - Organization and Operations

NGL Energy Partners LP (we or the Partnership) is a Delaware limited partnership formed in September 2010. NGL Energy Holdings LLC serves as our general partner. We completed an initial public offering in May 2011. At the time of our initial public offering, we owned and operated retail propane and wholesale natural gas liquids businesses. Subsequent to our initial public offering, we significantly expanded our operations through a number of business combinations, including the following:

• On October 3, 2011, we completed a business combination transaction with E. Osterman Propane, Inc., its affiliated companies and members of the Osterman family (collectively, Osterman), whereby we acquired retail propane operations in the northeastern United States. We issued 4,000,000 common units and paid $94.9 million, net of cash acquired, in exchange for the assets and operations of Osterman. The agreement also contemplated a post-closing payment of $4.8 million for certain specified working capital items, which was paid in November 2012.

• On November 1, 2011, we completed a business combination transaction with SemStream, L.P. (SemStream), whereby we acquired SemStream s wholesale natural gas liquids supply and marketing operations and its 12 natural gas liquids terminals. We issued 8,932,031 common units and paid $91 million in exchange for the assets and operations of SemStream, including working capital.

• On January 3, 2012, we completed a business combination transaction with seven companies associated with Pacer Propane Holding, L.P. (collectively, Pacer), whereby we acquired retail propane operations, primarily in the western United States. We issued 1,500,000 common units and paid $32.2 million in exchange for the assets and operations of Pacer, including working capital. We also assumed $2.7 million of long-term debt in the form of non-compete agreements.

• On February 3, 2012, we completed a business combination transaction with North American Propane, Inc. (North American), whereby we acquired retail propane and distillate operations in the northeastern United States. We paid $69.8 million in exchange for the assets and operations of North American, including working capital.

• During April, May, and July 2012, we completed four separate business combination transactions to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States. The largest of these was with Downeast Energy Corp. (Downeast). On a combined basis, we paid $60.5 million of cash and issued 850,676 common units in exchange for these assets and operations,

including working capital. In addition, a combined amount of approximately $0.4 million will be payable as deferred payments on the purchase price. We also assumed $5.9 million of long-term debt in the form of non-compete agreements.

- On June 19, 2012, we completed a business combination with High Sierra Energy, LP and High Sierra Energy GP, LLC (collectively, High Sierra). High Sierra s assets include water treatment and disposal facilities, two crude oil terminals, a fleet of rail cars, and a fleet of trucks. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner.

As of September 30, 2012, our businesses include:

- Retail propane and distillate operations in over 20 states;

- Wholesale propane and other natural gas liquids operations throughout the United States and in Canada;

- Propane and natural gas liquids transportation and terminalling operations, conducted through 18 owned terminals and a fleet of owned and predominantly leased rail cars;

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

- A crude oil transportation and marketing business, the assets of which include crude oil terminals, a fleet of trucks, and a fleet of leased rail cars; and

- A water treatment business, the assets of which include water treatment and disposal facilities, a fleet of water trucks, and fractionation tanks.

Note 2 - Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements as of September 30, 2012 and March 31, 2012 and for the three months and six months ended September 30, 2012 and 2011 include our accounts and those of our controlled subsidiaries. All significant intercompany transactions and account balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim consolidated financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The condensed consolidated financial statements include all adjustments that we consider necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Such adjustments consist only of normal recurring items, unless otherwise disclosed herein. Accordingly, the condensed consolidated financial statements do not include all the information and notes required by GAAP for complete annual consolidated financial statements. However, we believe that the disclosures made are adequate to make the information not misleading. These interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended March 31, 2012, included in our Annual Report on Form 10-K. Due to the seasonal nature of our natural gas liquids operations and other factors, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

The condensed consolidated balance sheet as of March 31, 2012 is derived from audited financial statements. Certain amounts previously reported have been reclassified to conform to the current presentation. In addition, as described in Note 3, certain balances as of March 31, 2012 were adjusted to reflect the final acquisition accounting for a business combination.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies are consistent with those disclosed in Note 2 of our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2012. We have included information below on certain new accounting policies relevant to the businesses acquired in the June 2012 merger with High Sierra, and on certain other accounting policies that are significant to an understanding of the accompanying financial statements.

Revenue Recognition

Revenues from sales of products are recognized on a gross basis at the time title to the product sold transfers to the purchaser and collection of those amounts is reasonably assured. Sales or purchases with the same counterparty that are entered into in contemplation of one another are reported on a net basis as one transaction. Revenue from wastewater disposal trucking services is recognized when the wastewater is picked up from the customer s location or upon delivery of the wastewater to a specific delivery location, depending upon the terms of the contractual agreements. Revenue from other transportation services is recognized upon completion of the services as defined in the customer agreement. Revenue on equipment leased under operating leases is billed and recognized monthly according to the terms of the related lease agreement with the customer over the term of the lease. Net gains and losses resulting from commodity derivative instruments are recognized within cost of sales.

Revenues for the wastewater disposal business are recognized upon delivery of the wastewater to the disposal facilities. Certain agreements require customers to deliver minimum quantities of wastewater for an agreed upon period. Revenue is recognized when the wastewater is delivered, with an adjustment for the minimum volume delivery in the event that actual delivered wastewater is less than the committed minimum. Revenues from hydrocarbons recovered from wastewater are recognized upon sale.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Amounts billed to customers for shipping and handling costs are included in revenues in the consolidated statements of operations. Shipping and handling costs associated with product sales are included in operating expenses in the consolidated statements of operations. Taxes collected from customers and remitted to the appropriate taxing authority are excluded from revenues in the consolidated statements of operations.

Fair Value Measurements

We apply fair value measurements to certain assets and liabilities, principally our commodity and interest rate derivative instruments and assets and liabilities acquired in business combinations. Fair value represents the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value is based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market for the asset or liability (the market for which the reporting entity would be able to maximize the amount received or minimize the amount paid). We evaluate the need for credit adjustments to our derivative instrument fair values in accordance with the requirements noted above.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.

- Level 2 Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 include non-exchange traded derivatives such as over-the-counter commodity price swap and option contracts and interest rate protection agreements. The majority of our derivative financial instruments were categorized as Level 2 at September 30, 2012 and March 31, 2012 (see Note 11). We determine the fair value of all our derivative financial instruments utilizing pricing models for significantly similar instruments. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

- Level 3 Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. We did not have any derivative financial instruments categorized as Level 3 at September 30, 2012 or March 31, 2012.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

Supplemental Cash Flow Information

Supplemental cash flow information is as follows for the periods indicated:

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
	(in thousands)			
Interest paid, exclusive of debt issuance costs	$ 6,594	$ 183	$ 9,831	$ 860
Income taxes paid	$	$	$ 176	$
Value of common units issued in retail propane combinations (Note 3)	$ 2,224	$	$ 18,874	$
Value of common units issued in High Sierra combination (Note 3)	$	$	$ 414,794	$

Cash flows from commodity derivative instruments are classified as cash flows from investing activities in the consolidated statements of cash flows.

Inventories

Inventories consist of the following:

	September 30, 2012	March 31, 2012
	(in thousands)	
Propane	$ 154,104	$ 78,993
Other natural gas liquids	66,425	9,259
Crude oil	33,501	
Other	10,526	6,252
	$ 264,556	$ 94,504

Asset Retirement Obligations

An asset retirement obligation (ARO) is a legal obligation associated with the retirement of a tangible long-lived asset that generally results from the acquisition, construction, development or normal operation of the asset. Significant inputs used to estimate an ARO include: (i) the expected

retirement date; (ii) the estimated costs of retirement, including adjustments for cost inflation and the time value of money; and (iii) the appropriate method for allocation of estimated asset retirement costs to expense. The cost for asset retirement is capitalized as part of the cost of the related long-lived assets and subsequently allocated to expense over the remaining useful lives of the assets associated with the obligation. The ARO liability is accreted to the estimated total retirement obligation over the period the related assets are used through the expected retirement date.

Note 3   Acquisitions

High Sierra combination

On June 19, 2012, we completed a business combination with High Sierra, whereby we acquired all of the ownership interests in High Sierra. We paid $96.8 million of cash and issued 18,018,468 common units to acquire High Sierra Energy, LP. These common units were valued at $406.8 million using the closing price of our units on the New York Stock Exchange on the merger date. We also paid $97.4 million of High Sierra Energy, LP s long-term debt and other obligations. Our general partner acquired High Sierra Energy GP, LLC by paying $50 million of cash and issuing equity. Our general partner then contributed its ownership interests in High Sierra Energy GP, LLC to us, in return for which we paid our general partner $50 million of cash and issued 2,685,042 common units to our general partner. We recorded the value of the 2,685,042 common units issued to our general

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

partner at $7.6 million, which represents an initial estimate, in accordance with GAAP, of the fair value of the equity issued by our general partner to the former owners of High Sierra s general partner. In accordance with the fair value model specified in the accounting standards, this fair value was estimated based on assumptions of future distributions and a discount rate that a hypothetical buyer might use. Under this model, the potential for distribution growth resulting from the prospect of future acquisitions and capital expansion projects would not be considered in the fair value calculation. We have not yet completed the accounting for the business combination, and this estimate of fair value is subject to change. The difference between the estimated fair value of the general partner interests issued by our general partner of $7.6 million, calculated as described above, and the fair value of the common units issued to our general partner of $60.6 million, as calculated using the closing price of the common units on the stock exchange, is reported as a reduction to equity. We incurred and charged to general and administrative expense during the six months ended September 30, 2012 approximately $3.7 million of costs related to the High Sierra transaction. We also incurred or accrued costs of approximately $653,000 related to the equity issuance that we charged to equity.

We have included the results of High Sierra s operations in our consolidated financial statements beginning on June 19, 2012. During the six months ended September 30, 2012, our consolidated statement of operations includes operating income of approximately $16.8 million generated by the operations of High Sierra. The following table summarizes the revenues and cost of sales generated from High Sierra s operations that are included in our consolidated statement of operations for the six months ended September 30, 2012 (in thousands):

	Revenues	Cost of Sales
Crude oil logistics	$ 784,538	$ 770,570
Natural gas liquids logistics	218,973	204,030
Water services	17,751	2,670
Other	1,461	
Total	$ 1,022,723	$ 977,270

We are in the process of identifying, and obtaining an independent appraisal of, the fair value of the assets and liabilities acquired in the combination with High Sierra. The estimates of fair value reflected as of September 30, 2012 are subject to change and such changes could be material. We currently expect to complete this process prior to filing our Form 10-K for the year ending March 31, 2013. We have preliminarily estimated the fair value of the assets acquired and liabilities assumed as follows (in thousands):

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Accounts receivable	$	395,223
Inventory		43,365
Receivables from affiliates		7,724
Derivative assets		10,646
Forward purchase and sale contracts		34,717
Other current assets		11,175
Property, plant and equipment:		
Land		5,900
Transportation vehicles and equipment (5 years)		12,160
Facilities and equipment (20 years)		70,409
Buildings and improvements (20 years)		29,800
Software (5 years)		2,700
Construction in progress		9,600
Intangible assets:		
Customer relationships (15 years)		174,100
Lease contracts (1-6 years)		10,500
Trade names (indefinite)		3,000
Goodwill		329,227
Assumed liabilities:		
Accounts payable		(417,057)
Accrued expenses and other current liabilities		(35,260)
Payables to affiliates		(9,016)
Advance payments received from customers		(1,237)
Derivative liabilities		(5,726)
Forward purchase and sale contracts		(22,448)
Noncurrent liabilities		(3,057)
Noncontrolling interest in consolidated subsidiary		(2,400)
Consideration paid, net of cash acquired	$	654,045

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The fair value of accounts receivable is approximately $0.6 million lower than the contract value, to give effect to estimated uncollectable accounts.

Terminal Acquisition

On August 31, 2012, we completed the acquisition of a crude oil terminalling facility in Catoosa, Oklahoma for a cash payment of $7.3 million (net of cash acquired). The results of operations of this facility have been included in our consolidated results of operations beginning with the acquisition date. We are in the process of estimating the fair value of the assets and liabilities acquired. These estimates of fair value are subject to change, although we do not expect such changes to be material to our consolidated financial statements. We have preliminarily estimated the fair values of the assets acquired and liabilities assumed as follows (in thousands):

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Accounts receivable	$	39
Property, plant and equipment (5-20 years)		1,545
Customer relationships (5 years)		1,300
Goodwill		4,516
Current liabilities		(87)
Consideration paid, net of cash acquired	$	7,313

Retail combinations during the six months ended September 30, 2012

During April, May, and July 2012, we entered into four separate business combination agreements to acquire retail propane and distillate operations, primarily in the northeastern and southeastern United States. On a combined basis, we paid cash of $60.5 million and issued 850,676 common units, valued at $18.9 million, in exchange for the receipt of these assets. In addition, a combined amount of approximately $0.4 million will be payable as deferred payments on the purchase price. We also assumed $5.9 million of long-term debt in the form of non-compete agreements. We incurred and charged to general and administrative expense during the six months ended September 30, 2012 approximately $225,000 related to these acquisitions. We are in the process of identifying the fair value of the assets and liabilities acquired in the combinations. The estimates of fair value reflected as of September 30, 2012 are subject to change and changes could be material. Our preliminary estimates of the fair value of the assets acquired and liabilities assumed in these three combinations are as follows (in thousands):

Accounts receivable	$	8,323
Inventory		4,707
Other current assets		1,188
Property, plant and equipment:		
Land		4,299
Tanks and other retail propane equipment (5-20 years)		29,782
Vehicles (5 years)		9,307
Buildings (30 years)		9,505
Other equipment		1,117
Intangible assets:		
Customer relationships (10-15 years)		15,350
Tradenames (indefinite)		600
Non-compete agreements (5 years)		950
Goodwill		11,491
Other non-current assets		784
Long-term debt, including current portion		(5,922)
Other assumed liabilities		(11,666)
Fair value of net assets acquired	$	79,815

Consideration paid consists of the following (in thousands):

Cash consideration paid through September 30, 2012	$	60,518
Deferred payments on purchase price		423
Value of common units issued		18,874
Total consideration	$	79,815

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

The retail combinations completed during the six months ended September 30, 2012 contributed approximately $25.1 million of revenue and approximately $16.0 million of cost of sales to our consolidated statement of operations for the six months ended September 30, 2012.

Business Combination During Fiscal 2012 for which Acquisition Accounting was Completed During Fiscal 2013

As described in Note 1, we acquired the operations of Osterman in October 2011. During the three months ended September 30, 2012 we completed the acquisition accounting. The following table presents the final allocation of the acquisition cost to the assets acquired and liabilities assumed, based on their fair values (in thousands):

	Final Allocation	Estimated Allocation as of March 31, 2012	Revision
Accounts receivable	$ 9,350	$ 5,584	$ 3,766
Inventory	3,869	3,898	(29)
Other current assets	215	212	3
Property, plant and equipment:			
Land	2,349	4,500	(2,151)
Tanks and other retail propane equipment (15-20 years)	47,160	55,000	(7,840)
Vehicles (5-20 years)	7,699	12,000	(4,301)
Buildings (30 years)	3,829	6,500	(2,671)
Other equipment (3-5 years)	732	1,520	(788)
Intangible assets:			
Customer relationships (20 years)	54,500	62,479	(7,979)
Tradenames (indefinite life)	8,500	5,000	3,500
Non-compete agreements (7 years)	700		700
Goodwill	52,267	30,405	21,862

Assumed liabilities	(9,654)	(5,431)	(4,223)
Consideration paid, net of cash acquired	$ 181,516	$ 181,667	$ (151)

Consideration paid consists of the following (in thousands):

	Final Allocation	Estimated Allocation as of March 31, 2012	Revision
Cash paid at closing, net of cash acquired	$ 94,873	$ 96,000	$ (1,127)
Fair value of common units issued at closing	81,880	81,880	
Working capital payment (expected to be paid in November 2012)	4,763	3,787	976
Consideration paid, net of cash acquired	$ 181,516	$ 181,667	$ (151)

We have adjusted the March 31, 2012 balances reported in these condensed consolidated financial statements to reflect the final acquisition accounting. The impact of these revisions was not material to the condensed consolidated statements of operations.

Goodwill represents the excess of the estimated consideration paid for the acquired business over the fair value of the individual assets acquired, net of liabilities. Goodwill primarily represents the value of synergies between the acquired entities and the Partnership, the opportunity to use the acquired businesses as a platform for growth, and the acquired assembled workforce. We estimate that all of the goodwill will be deductible for federal income tax purposes.

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Business Combinations During Fiscal 2012 for which Acquisition Accounting is Not Yet Complete

During the year ended March 31, 2012, we completed two other business combinations for which we have not yet completed the process of identifying the fair values of the assets and liabilities acquired. These include the Pacer and North American combinations. The estimates of fair value reflected as of March 31, 2012 and September 30, 2012 are subject to change and changes could be material. Our preliminary estimates of the fair values of the assets acquired and liabilities assumed in these two combinations are as follows (in thousands):

	Pacer	North American
Accounts receivable	$ 4,389	$ 10,338
Inventory	965	3,437
Other current assets	43	282
Property, plant and equipment:		
Land	1,400	2,600
Tanks and other retail propane equipment (15 years)	11,200	27,100
Vehicles (5 years)	5,000	9,000
Buildings (30 years)	2,300	2,200
Other equipment (3-5 years)	200	500
Intangible assets:		
Customer relationships (15 years)	21,980	9,800
Tradenames (indefinite life)	1,000	1,000
Goodwill	18,460	14,702
Assumed liabilities	(4,349)	(11,129)
Consideration paid	$ 62,588	$ 69,830

Pro Forma Results of Operations

The operations of High Sierra have been included in our statements of operations since High Sierra was acquired on June 19, 2012. The following unaudited pro forma consolidated data below are presented as if the High Sierra acquisition had been completed on April 1, 2011. The pro forma earnings per unit are based on the common and subordinated units outstanding as of September 30, 2012.

	Three Months Ended September 30,	Six Months Ended September 30,	
	2011	2012	2011
	(in thousands, except per unit amounts)		

Revenues	$	958,704	$	2,177,885	$	1,914,082
Net income (loss) from continuing operations		6,593		(21,757)		12,315
Limited partners interest in net income (loss) from continuing operations		6,697		(21,720)		12,775
Basic and diluted earnings (loss) from continuing operations per Common Unit		0.13		(0.43)		0.25
Basic and diluted earnings (loss) from continuing operations per Subordinated Unit		0.13		(0.43)		0.25

The pro forma consolidated data in the table above was prepared by adding the historical results of operations of High Sierra to our historical results of operations and making certain pro forma adjustments. The pro forma adjustments included: (i) replacing High Sierra s historical depreciation and amortization expense with pro forma depreciation and amortization expense, calculated using the estimated fair values of long-lived assets recorded in the acquisition accounting; (ii) replacing High Sierra s historical interest expense with pro forma interest expense, calculated using the cash consideration paid by us in the merger multiplied by the 6.65% interest rate on the senior notes we issued at the time of the merger; and (iii) excluding approximately $12.3 million of professional fees and other expenses incurred by us and by High Sierra that were directly related to the merger. In order to calculate pro forma earnings per unit in the table above, we assumed that: (i) the same number of limited partner units outstanding at September 30, 2012 had been outstanding throughout the periods shown in the table, (ii) no incentive distributions (described in Note 10) were paid to the general partner related to the periods

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

shown in the table, and (iii) all of the common units were eligible for a distribution related to the periods shown in the table. The pro forma information is not necessarily indicative of the results of operations that would have occurred if the merger had been completed on April 1, 2011, nor is it necessarily indicative of the future results of the combined operations.

Note 4 Earnings per Unit

Our earnings per common and subordinated unit for the periods indicated below were computed as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands, except unit and per unit amounts)			
Earnings (loss) per common or subordinated limited partner unit:				
Net income (loss) attributable to parent equity	$ 10,073	$ (5,395)	$ (14,577)	$ (12,168)
Loss (income) allocated to general partner (*)	(694)	5	(789)	12
Net income (loss) allocated to limited partners	$ 9,379	$ (5,390)	$ (15,366)	$ (12,156)
Net income (loss) allocated to:				
Common unitholders	$ 8,286	$ (3,232)	$ (13,112)	$ (8,253)
Subordinated unitholders	$ 1,093	$ (2,158)	$ (2,254)	$ (3,903)
Weighted average common units outstanding - Basic and Diluted	44,831,836	8,864,222	35,730,492	9,370,997
Weighted average subordinated units outstanding - Basic and Diluted	5,919,346	5,919,346	5,919,346	4,431,423
Earnings (loss) per common unit - Basic and Diluted	$ 0.18	$ (0.36)	$ (0.37)	$ (0.88)
Earnings (loss) per subordinated unit - Basic and Diluted	$ 0.18	$ (0.36)	$ (0.38)	$ (0.88)

(*) The income allocated to the general partner for the three months and six months ended September 30, 2012 includes distributions to which it is entitled as the holder of incentive distribution rights (described in Note 10).

The 761,000 restricted units described in Note 10 were antidilutive for all periods presented subsequent to the grant date.

Note 5 - Property, Plant and Equipment

Our property, plant and equipment consists of the following as of the dates indicated (in thousands):

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Description and Useful Life	September 30, 2012	March 31, 2012 (Note 3)
Terminal assets (30 years)	$ 61,229	$ 60,980
Retail propane equipment (5-20 years)	152,410	120,689
Vehicles (5 years)	53,803	31,463
Water treatment equipment (20 years)	51,640	
Crude oil tanks and related equipment (20 years)	14,332	
Information technology equipment (3-5 years)	8,025	2,381
Buildings (30 years)	56,528	16,356
Land	23,231	12,616
Other (3-7 years)	14,198	5,331
Construction in progress	15,571	679
	450,967	250,495
Less: Accumulated depreciation	(25,326)	(12,843)
Net property, plant and equipment	$ 425,641	$ 237,652

Depreciation expense was $7.7 million and $1.4 million for the three months ended September 30, 2012 and 2011, respectively, and $13.8 million and $2.6 million for the six months ended September 30, 2012 and 2011, respectively.

Note 6 Goodwill and Intangible Assets

The changes in the balance of goodwill during the six months ended September 30, 2012 were as follows (in thousands):

Balance at March 31, 2012, as previously reported	$ 148,785
Revision to allocation of Osterman combination	21,862
Balance at March 31, 2012, as retrospectively adjusted (Note 3)	170,647
Acquisitions	345,234
Balance at September 30, 2012	$ 515,881

Goodwill by reportable segment is as follows in (in thousands):

	September 30,	March 31,

	2012	2012 (Note 3)
Retail propane	$ 105,180	$ 93,689
Natural gas liquids logistics	162,861	76,958
Crude oil logistics	125,049	
Water services	122,791	
	$ 515,881	$ 170,647

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Our intangible assets consist of the following as of the dates indicated (in thousands):

		September 30, 2012		March 31, 2012	
	Useful Lives	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount (Note 3)	Accumulated Amortization
Amortizable					
Lease and other agreements	1-8 years	$ 13,310	$ 3,531	$ 2,810	$ 1,545
Customer relationships	5-20 years	314,442	11,767	123,691	3,868
Non-compete agreements	2-7 years	3,762	1,406	2,813	919
Debt issuance costs	5-10 years	17,144	942	7,310	1,842
Total amortizable		348,658	17,646	136,624	8,174
Non-Amortizable					
Trade names	Indefinite	14,930		11,330	
Total		$ 363,588	$ 17,646	$ 147,954	$ 8,174

Expected amortization of our amortizable intangible assets is as follows (in thousands):

Year Ending March 31,	
2013 (six months)	$ 15,470
2014	28,180
2015	26,959
2016	26,022
2017	25,309
Thereafter	209,072
	$ 331,012

Amortization expense was as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Recorded in				
Cost of sales	$ 1,352	$ 200	$ 1,552	$ 400

Depreciation and amortization	5,654	267	8,820	449
Interest expense	835	303	1,336	655
Loss on early extinguishment of debt			5,769	
	$ 7,841	$ 770	$ 17,477	$ 1,504

Note 7 - Long-Term Debt

Our long-term debt consists of the following:

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

		September 30, 2012		March 31, 2012
		(in thousands)		
Revolving credit facility				
Expansion capital loans	$	262,000	$	
Working capital loans		124,000		
Senior notes		250,000		
Previous revolving credit facility				
Acquisition loans				186,000
Working capital loans				28,000
Other notes payable		11,936		4,661
		647,936		218,661
Less - current maturities		78,033		19,484
Long-term debt	$	569,903	$	199,177

On June 19, 2012, we entered into a new revolving credit agreement (the Credit Agreement) with a syndicate of banks. The Credit Agreement includes a revolving credit facility to fund working capital needs (the Working Capital Facility) and a revolving credit facility to fund acquisitions and expansion projects (the Expansion Capital Facility). Also on June 19, 2012, we entered into a Note Purchase Agreement whereby we issued $250 million of notes payable in a private placement (the Senior Notes). We used the proceeds from the issuance of the Senior Notes and borrowings under the Credit Agreement to repay existing debt and to fund the acquisition of High Sierra.

Credit Agreement

The Working Capital Facility had a total capacity of $197.5 million for cash borrowings and letters of credit at September 30, 2012, which we increased to $217.5 million in November 2012. At September 30, 2012, we had outstanding cash borrowings of $124.0 million and outstanding letters of credit of $58.2 million on the Working Capital Facility, leaving a remaining capacity of $15.3 million at September 30, 2012. The Expansion Capital Facility had a total capacity of $447.5 million for cash borrowings at September 30, 2012, which we increased to $477.5 million in November 2012. At September 30, 2012, we had outstanding cash borrowings of $262.0 million on the Expansion Capital Facility, leaving a remaining capacity of $185.5 million at September 30, 2012. The commitments under the Credit Agreement expire on June 19, 2017. We generally have the right to make early principal payments without incurring any penalties, and earlier principal payments may be required if we enter into certain transactions to sell assets or obtain new borrowings. Once during each fiscal year, we are required to prepay loans under the Working Capital Facility in order to reduce the outstanding Working Capital Facility loans to an aggregate amount of $50 million or less for 30 consecutive days.

All borrowings under the Credit Agreement bear interest, at NGL s option, at (i) an alternate base rate plus a margin of 1.75% to 2.75% per annum or (ii) an adjusted LIBOR rate plus a margin of 2.75% to 3.75% per annum. The applicable margin is determined based on the consolidated leverage ratio of NGL, as defined in the Credit Agreement. At September 30, 2012, the interest rate in effect on outstanding LIBOR borrowings was 3.22%, calculated as the LIBOR rate of 0.22% plus a margin of 3.0%. At September 30, 2012, the interest rate in effect on outstanding base rate borrowings was 5.25%, calculated as the base rate of 3.25% plus a margin of 2.0%. Commitment fees are charged at a rate ranging from 0.38% to 0.50% on any unused credit. The Credit Agreement is secured by substantially all of our assets.

At September 30, 2012, our outstanding borrowings and interest rates under our revolving credit facility were as follows (dollars in thousands):

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

	Amount	Rate
Expansion capital facility		
LIBOR borrowings	$ 262,000	3.22%
Base rate borrowings		
Working capital facility		
LIBOR borrowings	97,000	3.23%
Base rate borrowings	27,000	5.25%

The Credit Agreement specifies that our leverage ratio, as defined in the Credit Agreement, cannot exceed 4.25 to 1.0 at any quarter end. At September 30, 2012, our leverage ratio was approximately 3 to 1. The Credit Agreement also specifies that our interest coverage ratio, as defined in the Credit Agreement, cannot be less than 2.75 to 1 as of the last day of any fiscal quarter. At September 30, 2012, our interest coverage ratio was approximately 8 to 1.

The Credit Agreement contains various customary representations, warranties and additional covenants, including, without limitation, limitations on fundamental changes and limitations on indebtedness and liens. Our obligations under the Credit Agreement may be accelerated following certain events of default (subject to applicable cure periods), including, without limitation, (i) the failure to pay principal or interest when due, (ii) a breach by NGL or its subsidiaries of any material representation or warranty or any covenant made in the Credit Agreement or (iii) certain events of bankruptcy or insolvency.

At September 30, 2012, we were in compliance with all covenants under our credit facility.

Senior Notes

The Senior Notes have an aggregate principal amount of $250 million and bear interest at a fixed rate of 6.65%. Interest is payable quarterly. The notes are required to be repaid in semi-annual installments of $25 million beginning on December 19, 2017 and ending on June 19, 2022. We have the option to make early principal payments, although we will be required to pay a penalty if we make an early principal payment. The Senior Notes are secured by substantially all of our assets, and rank equal in priority with borrowings under the Credit Agreement.

The Note Purchase Agreement specifies that our leverage ratio, as defined in the Note Purchase Agreement, cannot exceed 4.25 to 1.0 at any quarter end. At September 30, 2012, our leverage ratio was approximately 3 to 1. The Note Purchase Agreement also specifies that our interest coverage ratio, as defined in the Note Purchase Agreement, cannot be less than 2.75 to 1 as of the last day of any fiscal quarter. At September 30, 2012, our interest coverage ratio was approximately 8 to 1.

The Note Purchase Agreement contains various customary representations, warranties, and additional covenants that, among other things, limit our ability to (subject to certain exceptions): (i) incur additional debt, (ii) pay dividends and make other restricted payments, (iii) create or permit certain liens, (iv) create or permit restrictions on the ability of certain of our subsidiaries to pay dividends or make other distributions to us, (v) enter into transactions with affiliates, (vi) enter into sale and leaseback transactions and (vii) consolidate or merge or sell all or substantially all or any portion of our assets.

The Note Purchase Agreement provides for customary events of default that include, among other things (subject in certain cases to customary grace and cure periods): (i) non-payment of principal or interest, (ii) breach of certain covenants contained in the Note Purchase Agreement or the Senior Notes, (iii) failure to pay certain other indebtedness or the acceleration of certain other indebtedness prior to maturity if the total amount of such indebtedness unpaid or accelerated exceeds $10 million, (iv) the rendering of a judgment for the payment of money in excess of $10 million, (v) the failure of the Note Purchase Agreement, the Senior Notes, or the guarantees by the subsidiary guarantors to be in full force and effect in all material respects and (vi) certain events of bankruptcy or insolvency. Generally, if an event of default occurs (subject to certain exceptions), the trustee or the holders of at least 51% in aggregate principal amount of the then outstanding Senior Notes of any series may declare all of the Senior Notes of such series to be due and payable immediately.

At September 30, 2012, we were in compliance with all covenants under the Note Purchase Agreement.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Previous credit facilities

On June 19, 2012, we made a principal payment of $306.8 million to retire our previous revolving credit facility. Upon retirement of this facility, we wrote off the portion of the debt issuance cost asset that had not yet been amortized. This expense is reported as Loss on early extinguishment of debt in our consolidated statement of operations for the six months ended September 30, 2012.

Other Notes Payable

The other notes payable of approximately $11.9 million mature as follows (in thousands):

Year Ending March 31,		
2013 (six months)	$	2,190
2014		2,862
2015		2,351
2016		1,933
2017		1,795
2018		805
	$	11,936

Note 8 - Income Taxes

We qualify as a partnership for income tax purposes. As a result, we generally do not pay U.S. Federal income tax. Rather, each owner reports their share of our income or loss on their individual tax returns. The aggregate difference in the basis of our net assets for financial and tax reporting purposes cannot be readily determined, as we do not have access to information regarding each partner s basis in the Partnership.

As a publicly-traded partnership, we are allowed to have non-qualifying income up to 10% of our gross income and not be subject to taxation as a corporation. We have two taxable corporate subsidiaries that hold certain assets and operations that represent non-qualifying income for a partnership. Our taxable subsidiaries are subject to income taxes related to the taxable income generated by their operations.

We also have two Canadian subsidiaries, one of which we acquired in the June 2012 merger with High Sierra, that are subject to income tax in Canada. Our income tax provision for the six months ended September 30, 2012 related to these subsidiaries was not significant.

We evaluate uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, we determine whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more likely than not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. The amount of tax benefit recognized with respect to any tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. We had no uncertain tax positions that required recognition in the consolidated financial statements at September 30, 2012 or March 31, 2012. Any interest or penalties would be recognized as a component of income tax expense.

Note 9 - Commitments and Contingencies

Legal Contingencies

We are party to various claims, legal actions, and complaints arising in the ordinary course of business. In the opinion of our management, the ultimate resolution of these claims, legal actions, and complaints, after consideration of amounts accrued, insurance coverage, and other arrangements, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, the outcome of such matters is inherently uncertain, and estimates of our consolidated liabilities may change materially as circumstances develop.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

In February 2012, High Sierra, several of its subsidiaries and other unaffiliated parties, were notified of a claim for wrongful death and failure to maintain adequate safety precautions. At this time, we are not able to determine what amount, if any, for which we might ultimately be held liable. In March 2012, a vehicle collided with a truck owned and operated by High Sierra, which resulted in a fatality. At this time, we are not able to determine whether we will be held liable for this incident. We believe that the amount of our liability for these incidents, if any, would be covered under existing insurance coverage.

In September 2010, Pemex Exploracion y Produccion (Pemex) filed a lawsuit against a number of defendants, including High Sierra. Pemex alleges that High Sierra and the other defendants purchased condensate from a source that had acquired the condensate illegally from Pemex. We do not believe that High Sierra had knowledge at the time of the purchases of the condensate that such condensate was allegedly sold illegally to High Sierra and others. The proceedings are in an early stage, and as a result, we cannot reliably predict the outcome of this litigation. We continue to defend this matter and believe that, in the event of an adverse outcome, our total exposure would not be material to the Partnership. However, future adverse rulings by the court could result in material increases to our maximum potential exposure. We have recorded an accrued liability in the High Sierra business combination accounting, based on our best estimate of the low end of the range of probable loss.

In May 2010, two lawsuits were filed in Kansas and Oklahoma by numerous oil and gas producers (the Associated Producers), asserting that they were entitled to enforce lien rights on crude oil purchased by High Sierra and other defendants. These cases were subsequently transferred to the United States Bankruptcy Court for the District of Delaware, where they are pending. These claims relate to the bankruptcy of SemCrude, L.P. The Associated Producers are claiming damages against all defendants, including High Sierra, in excess of $72 million and assert that our allocated share of that claim is in excess of $2.1 million. The parties are in the discovery phase of the cases and no trial date has been set. We intend to continue to defend this matter.

In early 2011, IC-CO, Inc. (IC-CO) and W.E.O.C., Inc. filed an action in the United States District Court for the Eastern District of Oklahoma against J. Aron & Company claiming they are entitled to enforce lien rights on crude oil purchased by the defendants. IC-CO and W.E.O.C., Inc. sought recovery of sums they were owed for crude oil they had sold and not been paid for. The amount of their claims is approximately $80,000. However, their complaint also seeks class action certification status on behalf of all other producers located in the State of Oklahoma. In December 2011, IC-CO filed a motion seeking to amend its complaint to add additional defendants, including High Sierra. The court has not yet ruled on the motion to amend the complaint. We believe we have meritorious defenses to the claims, including those raised in a substantially similar action that High Sierra previously settled for an immaterial amount, and that the IC-CO claims are now barred by applicable statute of limitations.

One of our facilities acquired in the High Sierra merger is operating with all but one of the required permits. High Sierra has applied for the permit, which is necessary for ongoing operations. We have been informed by the State of Wyoming that we have fulfilled all of the obligations necessary to receive the permit; however, we believe that denial of the permit application could adversely affect operations. We have continued to communicate with the State of Wyoming about the status of the permit. We believe that the permit will be granted, but are unable to determine the timing of any action by the State of Wyoming.

Environmental Matters

Our operations are subject to extensive federal, state, and local environmental laws and regulations. Although we believe our operations are in substantial compliance with applicable environmental laws and regulations, risks of additional costs and liabilities are inherent in our business, and there can be no assurance that significant costs will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs. Accordingly, we have adopted policies, practices, and procedures in the areas of pollution control, product safety, occupational health, and the handling, storage, use, and disposal of hazardous materials designed to prevent material environmental or other damage, and to limit the financial liability that could result from such events. However, some risk of environmental or other damage is inherent in our business.

Asset Retirement Obligations

We recorded an asset retirement obligation liability of $1.1 million upon completion of our business combination with High Sierra. This asset retirement obligation liability is related to the wastewater disposal assets and crude oil lease automatic custody units, for which have contractual and regulatory obligations to perform remediation and, in some instances, dismantlement and

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

removal activities when the assets are abandoned. As described in Note 3, the valuation of the liabilities acquired in this merger is subject to change, once we complete the process of identifying and valuing the assumed liabilities.

In addition to the obligations described above, we may be obligated by contractual requirements to remove facilities or perform other remediation upon retirement of certain other assets. However, we do not believe the present value of these asset retirement obligations, under current laws and regulations, after taking into consideration the estimated lives of our facilities, is material to our financial position or results of operations.

Operating Leases

We have executed various noncancelable operating lease agreements for office space, product storage, trucks, rail cars, real estate, equipment and bulk propane storage tanks. Rental expense relating to operating leases was as follows (in thousands):

	2012	2011
Three months ended September 30	$ 12,486	$ 89
Six months ended September 30	17,246	177

Future minimum lease payments at September 30, 2012 are as follows for the next five years, including expected renewals (in thousands):

Year Ending March 31,	
2013 (six months)	$ 22,932
2014	45,743
2015	38,948
2016	34,568
2017	32,471

Sales and Purchase Contracts

We have entered into sales and purchase contracts for natural gas liquids and crude oil to be delivered in future periods. These contracts require that the parties physically settle the transactions with inventory. At September 30, 2012, we had the following such commitments outstanding:

	Gallons (in thousands)	Value (in $ thousands)
Natural gas liquids fixed-price purchase commitments	61,127	$ 59,523
Natural gas liquids floating-price purchase commitments	431,379	432,266
Natural gas liquids fixed-price sale commitments	179,150	198,903
Natural gas liquids floating-price sale commitments	250,421	348,427
Crude oil fixed-price purchase commitments	234,278	501,597
Crude oil fixed-price sale commitments	247,624	542,898

We account for the contracts shown in the table above as normal purchases and normal sales. Under this accounting policy election, we do not record the contracts at fair value at each balance sheet date; instead, we record the purchase or sale at the contracted value once the delivery occurs.

Certain of the forward purchase and sale contracts shown in the table above were acquired in the June 2012 merger with High Sierra. We recorded these contracts at their estimated fair values at the merger date, and we are amortizing these assets and liabilities to cost of sales over the remaining terms of the contracts. At September 30, 2012, the unamortized balances included $23.7 million recorded within other current assets, $0.3 million recorded within other noncurrent assets, $12.6 million recorded within other current liabilities, and $0.7 million recorded within other noncurrent liabilities. During the three and six months ended September 30, 2012, we recorded $1.6 million to cost of sales related to the amortization of these contract assets and liabilities. As described in Note 3, we

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

are still in the process of identifying the fair values of the assets and liabilities acquired in the combination with High Sierra. The estimates of fair value reflected as of September 30, 2012 are subject to change and such changes could be material.

Note 10 Equity

Partnership Equity

The Partnership s equity consists of a 0.1% general partner interest and a 99.9% limited partner interest. Limited partner equity consists of common and subordinated units. The limited partner units share equally in the allocation of income or loss. The primary difference between common and subordinated units is that in any quarter during the subordination period, holders of the subordinated units are not entitled to receive any distribution until the common units have received the minimum quarterly distribution plus any arrearages in the payment of the minimum quarterly distribution from prior quarters. Subordinated units will not accrue arrearages.

The subordination period will end on the first business day after we have earned and paid the minimum quarterly distribution on each outstanding common unit and subordinated unit and the corresponding distribution on the general partner interest for each of three consecutive, non-overlapping four-quarter periods ending on or after June 30, 2014. Also, if we have earned and paid at least 150% of the minimum quarterly distribution on each outstanding common unit and subordinated unit, the corresponding distribution on the general partner interest and the related distribution on the incentive distribution rights for each calendar quarter in a four-quarter period, the subordination period will terminate automatically. The subordination period will also terminate automatically if the general partner is removed without cause and the units held by the general partner and its affiliates are not voted in favor of removal. When the subordination period lapses or otherwise terminates, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

Our general partner is not obligated to make any additional capital contributions or guarantee any of our debts or obligations.

Common Units Issued in Business Combinations

As described in Note 3, we issued common units as partial consideration for acquisitions during the six months ended September 30, 2012. The following table summarizes the changes in common units outstanding during the six months ended September 30, 2012, exclusive of unvested units granted pursuant to the Long-Term Incentive Plan (described elsewhere in Note 10):

Common units outstanding at March 31, 2012	23,296,253
Common units issued in High Sierra combination	20,703,510
Common units issued in retail propane combinations	850,676
Common units outstanding at September 30, 2012	44,850,439

In connection with the completion of these transactions, we amended our Registration Rights Agreement. The Registration Rights Agreement, as amended, provides for certain registration rights for certain holders of our common units.

On October 1, 2012, we issued 516,978 common units as partial consideration for the acquisition of certain entities operating salt water disposal wells and related assets. As described in Note 14, on November 12, 2012, we issued 1,834,414 common units to the former owners of Pecos Gathering & Marketing, L.L.C and its affiliated companies.

Distributions

Our general partner has adopted a cash distribution policy that will require us to pay a quarterly distribution to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to the general partner and its affiliates, referred to as available cash, in the following manner:

- First, 99.9% to the holders of common units and 0.1% to the general partner, until each common unit has received the specified minimum quarterly distribution, plus any arrearages from prior quarters.

- Second, 99.9% to the holders of subordinated units and 0.1% to the general partner, until each subordinated unit has received the specified minimum quarterly distribution.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

- Third, 99.9% to all unitholders, pro rata, and 0.1% to the general partner.

The general partner will also receive, in addition to distributions on its 0.1% general partner interest, additional distributions based on the level of distributions to the limited partners. These distributions are referred to as incentive distributions.

The following table illustrates the percentage allocations of available cash from operating surplus between the unitholders and our general partner based on the specified target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution per Unit. The percentage interests shown for our unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 0.1% general partner interest, assume our general partner has contributed any additional capital necessary to maintain its 0.1% general partner interest and has not transferred its incentive distribution rights and there are no arrearages on common units.

	Total Quarterly Distribution Per Unit				Marginal Percentage Interest In Distributions	
					Unitholders	General Partner
Minimum quarterly distribution				$ 0.337500	99.9%	0.1%
First target distribution	above	$ 0.337500	up to	$ 0.388125	99.9%	0.1%
Second target distribution	above	$ 0.388125	up to	$ 0.421875	86.9%	13.1%
Third target distribution	above	$ 0.421875	up to	$ 0.506250	76.9%	23.1%
Thereafter	above	$ 0.506250			51.9%	48.1%

The following table summarizes the distributions declared since our initial public offering:

Date Declared	Record Date	Date Paid	Amount Per Unit	Amount Paid to Limited Partners (in thousands)	Amount Paid to General Partner (in thousands)
July 25, 2011	August 3, 2011	August 12, 2011	$ 0.1669	$ 2,467	$ 3
October 21, 2011	October 31, 2011	November 14, 2011	0.3375	4,990	5
January 24, 2012	February 3, 2012	February 14, 2012	0.3500	7,735	10
April 18, 2012	April 30, 2012	May 15, 2012	0.3625	9,165	10
July 24, 2012	August 3, 2012	August 14, 2012	0.4125	13,574	134

October 17, 2012	October 29, 2012	November 14, 2012	0.4500	22,846	707

Several of our business combination agreements contain provisions that temporarily limit the distributions to which the newly-issued units were entitled. The following table summarizes the number of equivalent units that were not eligible to receive a distribution on each of the record dates:

Record Date	**Equivalent Units Not Eligible**
August 3, 2011	
October 31, 2011	4,000,000
February 3, 2012	7,117,031
April 30, 2012	3,932,031
August 3, 2012	17,862,470
October 29, 2012	516,978

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Equity-Based Incentive Compensation

Our general partner has adopted the NGL Energy Partners LP 2011 Long-Term Incentive Plan for the employees, directors and consultants of our general partner and its affiliates who perform services for us. The Long-Term Incentive Plan allows for the issuance of restricted units, phantom units, unit options, unit appreciation rights and other unit-based awards, as discussed below. The number of common units that may be delivered pursuant to awards under the plan is limited to 10% of the issued and outstanding common and subordinated units. The maximum number of units deliverable under the plan automatically increases to 10% of the issued and outstanding common and subordinated units immediately after each issuance of common units, unless the plan administrator determines to increase the maximum number of units deliverable by a lesser amount. Units withheld to satisfy tax withholding obligations will not be considered to be delivered under the Long-Term Incentive Plan. In addition, if an award is forfeited, canceled, exercised, paid or otherwise terminates or expires without the delivery of units, the units subject to such award will again be available for new awards under the Long-Term Incentive Plan. Common units to be delivered pursuant to awards under the Long-Term Incentive Plan may be newly issued common units, common units acquired by us in the open market, common units acquired by us from any other person, or any combination of the foregoing. If we issue new common units with respect to an award under the Long-Term Incentive Plan, the total number of common units outstanding will increase.

On June 15, 2012, the Board of Directors of our general partner granted 761,000 restricted units to employees and directors. The restricted units will vest in tranches subject to the continued service of the recipients. The awards may also vest in the event of a change in control, at the discretion of the Board of Directors. No distributions will accrue to or be paid on the restricted units during the vesting period. The expected vesting of the awards is summarized below:

Vesting Date	Number of Awards
January 1, 2013	215,500
July 1, 2013	197,500
July 1, 2014	175,000
July 1, 2015	86,500
July 1, 2016	86,500

The weighted-average fair value of the awards was $21.40 at September 30, 2012, which was calculated as the closing price of the common units on September 30, 2012, adjusted to reflect the fact that the restricted units are not entitled to distributions during the vesting period. We record the expense for each tranche on a straight-line basis over the period beginning with the vesting of the previous tranche and ending with the vesting of the tranche. We adjust the cumulative expense recorded through the reporting date using the estimated fair value of the awards at the reporting date. We recorded $2.3 million of expense related to these awards during the three months ended September 30, 2012 and $3.0 million of expense related to these awards during the six months ended September 30, 2012. We estimate that the expense we will record on the awards granted as of September 30, 2012 will be as follows (in thousands), after taking into consideration an estimate of forfeitures. For purposes of this calculation, we have used the closing price of the common units on September 30, 2012.

Year ending March 31,		
2013 (six months)	$	4,535
2014		5,038
2015		2,272
2016		1,690
2017		416
Total	$	13,951

As of September 30, 2012, 4,314,743 units remain available for issuance under the Long-Term Incentive Plan.

Note 11 Fair Value of Financial Instruments

Our cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other current liabilities (excluding derivative instruments) are carried at amounts which reasonably approximate their fair values due to their short-term nature. The carrying amounts of our debt obligations reasonably approximate their fair values at September 30, 2012, as most of our debt is subject to terms that were recently negotiated.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Interest Rate Swap Agreement

We have entered into an interest rate swap agreement to hedge the risk of interest rate fluctuations on our long term debt. This agreement converts a portion of our revolving credit facility floating rate debt into fixed rate debt on a notional amount of $8.5 million and ends on September 30, 2013. The notional amounts of derivative instruments do not represent actual amounts exchanged between the parties, but instead represent amounts on which the contracts are based. The floating interest rate payments under these swaps are based on three-month LIBOR rates. We do not account for this agreement as a hedge. We recorded a liability of $0.1 million at September 30, 2012 and a liability of $0.2 million at March 31, 2012 related to this agreement.

Commodity Derivatives

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at September 30, 2012:

		Derivative Assets		Derivative Liabilities
		(in thousands)		
Level 1 measurements	$	2,047	$	(3,568)
Level 2 measurements		30,244		(18,733)
		32,291		(22,301)
Netting of counterparty contracts		(11,258)		11,258
Cash collateral provided or held		(9,289)		2,565
Commodity contracts reported on consolidated balance sheet	$	11,744	$	(8,478)

The following table summarizes the estimated fair values of the commodity derivative assets (liabilities) reported on the consolidated balance sheet at March 31, 2012:

		Derivative Assets		Derivative Liabilities
		(in thousands)		
Level 1 measurements	$		$	
Level 2 measurements				(36)

				(36)
Netting of counterparty contracts				
Cash collateral provided or held				
Commodity contracts reported on consolidated balance sheet	$		$	(36)

The commodity derivative assets (liabilities) are reported in the following accounts on the consolidated balance sheets:

		September 30, 2012		March 31, 2012
		(in thousands)		
Other current assets	$	11,143	$	
Other noncurrent assets		601		
Other current liabilities		(8,003)		(36)
Other noncurrent liabilities		(475)		
Net asset (liability)	$	3,266	$	(36)

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

The following table sets forth our open commodity derivative contract positions at September 30, 2012 and March 31, 2012. We do not account for these derivatives as hedges.

As of September 30, 2012 -				
Propane swaps (1)	May 2011 - March 2014	(394)	$	11,354
Heating oil calls and futures (2)	May 2012 - June 2013	188		2,400
Crude swaps (3)	September 2012 - December 2013	(429)		1,411
Crude - butane spreads (4)	September 2012 - March 2013	(34)		(1,778)
Crude forwards (5)	September 2012 - December 2013	(300)		3,245
Butane forwards (6)	September 2012 - October 2013	34		(6,642)
				9,990
Less: Margin deposits				(6,724)
Net fair value of commodity derivatives on consolidated balance sheet				3,266
As of March 31, 2012 -				
Propane swaps	April 2012 - March 2013	(3,702)	$	(36)

(1) Propane swaps Our natural gas liquids business routinely purchases inventory during the warmer months and stores the inventory for sale in the colder months. The contracts listed in this table as propane swaps represent financial derivatives we have entered into as an economic hedge against the risk that propane prices will decline while we are holding the inventory.

(2) Heating oil calls and futures Our retail operations routinely offer our customers the opportunity to purchase a specified volume of heating oil at a fixed price. The contracts listed in this table as heating oil calls and futures represent financial derivatives we have entered into as an economic hedge against the risk that heating oil prices will rise between the time we entered into the fixed price sale commitment with the customers and the time we will the purchase heating oil to sell to the customers.

(3) Crude swaps - Our crude oil logistics operations routinely enter into crude oil purchase and sale contracts that are priced based on a crude oil index. These indices may vary in the type or location of crude oil, or in the timing of delivery within a given month. The contracts listed in this table as crude swaps represent hedges against the risk that changes in the different index prices would reduce the margins between the purchase and the sale transactions.

(4) Crude-butane spreads Our crude oil logistics business has entered into certain forward contracts to sell butane at a price that will be calculated as a specified percentage of a crude oil index at the delivery date. The contracts listed in this table as crude butane spreads represent financial derivatives we have entered into as economic hedges against the risk that the spread between butane prices and crude prices will narrow between the time we entered into the butane forward sale contracts and the expected delivery dates.

(5) Crude forwards - Our crude oil logistics business routinely purchases crude oil inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as crude forwards represent financial derivatives we have entered into as an economic hedge against the risk that crude oil prices will decline while we are holding inventory.

(6) Butane forwards - Our natural gas liquids logistics business routinely purchases butane inventory to enable us to fulfill future orders expected to be placed by our customers. The contracts listed in this table as butane forwards represent financial derivatives we have entered into as an economic hedge against the risk that butane prices will decline while we are holding inventory.

We recorded the following net gains (losses) from our commodity and interest rate derivatives during the periods indicated:

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Commodity contracts -				
Unrealized gain (loss)	$ 9,476	$ 1,384	$ 11,405	$ (862)
Realized gain (loss)	(8,685)	(890)	(6,386)	1,327
Interest rate swaps	(4)	(9)	(5)	(287)
Total	$ 787	$ 485	$ 5,014	$ 178

The commodity contract gains and losses are included in cost of sales in the consolidated statements of operations. The gain or loss on the interest rate contracts is recorded in interest expense.

Credit Risk

We maintain credit policies with regard to our counterparties on the derivative financial instruments that we believe minimize our overall credit risk, including an evaluation of potential counterparties financial condition (including credit ratings), collateral requirements under certain circumstances and the use of standardized agreements, which allow for netting of positive and negative exposure associated with a single counterparty.

Our counterparties consist primarily of financial institutions and major energy companies. This concentration of counterparties may impact our overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes in economic, regulatory or other conditions.

As described in Note 14, we completed a business combination in November 2012 whereby we acquired Pecos Gathering & Marketing L.L.C. and certain of its affiliated entities (collectively, Pecos) that conduct crude oil logistics operations in Texas and New Mexico. The acquired operations sell a substantial amount of crude oil each month to one customer. The credit terms with this customer call for us to collect payment on a monthly basis. We entered into an agreement with the sellers of Pecos to provide some protection against the risk that we are unable to collect our receivables from this significant customer. The sellers of Pecos agreed to place certain of our common units that they own into escrow; if the customer defaults on its obligation to us within the six months following the date of the business combination, the sellers of Pecos will return the common units to us as partial compensation for the loss we would sustain on the uncollectable accounts receivable. This agreement may terminate early if we obtain a new credit enhancement facility to replace this agreement. In addition, the number of common units we would be entitled to recover under this agreement could be reduced if there is a decline in our sales to the customer.

For financial instruments, failure of a counterparty to perform on a contract could result in our inability to realize amounts that have been recorded on our consolidated statements of financial position and recognized in our net income.

Note 12 - Segments

Our reportable segments are based on the way in which our management structure is organized. Certain financial data related to our segments is shown below.

Our retail propane segment sells propane and petroleum distillates to end users consisting of residential, agricultural, commercial, and industrial customers, and to certain re-sellers. Our retail propane segment consists of two divisions, which are organized based on the location of the operations.

Our natural gas liquids logistics segment supplies propane and other natural gas liquids, and provides natural gas liquids transportation, terminalling, and storage services to retailers, wholesalers, and refiners. This segment includes our historical natural gas liquids operations and the natural gas liquids operations acquired in the June 2012 merger with High Sierra. We previously reported our natural gas liquids operations in two segments, referred to as our wholesale marketing and supply and midstream segments. The data in the table below has been presented under our new structure for all periods, with the amounts previously reported in the wholesale marketing and supply and midstream segments reported on a combined basis within the natural gas liquids logistics segment.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

Our crude oil logistics segment sells crude oil and provides crude oil transportation services to wholesalers and refiners. These operations were acquired in our June 2012 merger with High Sierra.

Our water services segment provides services for the transportation, treatment, and disposal of waste-water generated from oil and natural gas production, and generates revenue from the sale of recycled wastewater and recovered hydrocarbons. These operations were acquired in our June 2012 merger with High Sierra.

Items labeled corporate and other in the table below include the operations of a compressor leasing business that we acquired in our June 2012 merger with High Sierra, and also include certain corporate expenses that are incurred and are not allocated to the reportable segments. This data is included to reconcile the data for the reportable segments to data in our consolidated financial statements.

Table of Contents

NGL ENERGY PARTNERS LP

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

As of September 30, 2012 and March 31, 2012, and for the

Three Months and Six Months Ended September 30, 2012 and 2011

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
	(in thousands)			
Revenues:				
Retail propane -				
Propane sales	$ 37,939	$ 16,062	$ 77,791	$ 26,256
Distillate sales	10,859		22,623	
Sales of equipment, water softener, and other	4,311	1,680	8,101	3,120
Service and rental revenues	3,894	1,483	7,696	2,701
Natural gas liquids logistics -				
Propane sales	116,980	164,942	222,824	311,241
Other natural gas liquids sales	244,346	38,169	339,762	76,706
Storage and transportation revenues	5,495	443	8,321	760
Crude oil logistics	714,333		788,211	
Water services	15,810		17,751	
Other	1,308		1,461	
Elimination of intersegment sales	(19,765)	(12,738)	(32,595)	(19,898)
Total revenues	$ 1,135,510	$ 210,041	$ 1,461,946	$ 400,886
Depreciation and Amortization:				
Retail propane	$ 5,187	$ 1,388	$ 11,928	$ 2,455
Natural gas liquids logistics	3,553	313	5,450	623
Crude oil logistics	1,680		1,940	
Water services	2,768		3,050	
Corporate and other	173		220	
Total depreciation and amortization	$ 13,361	$ 1,701	$ 22,588	$ 3,078
Operating Income (Loss):				
Retail propane	$ (469)	$ (3,098)	$ (6,640)	$ (6,292)
Natural gas liquids logistics	10,217			