NATURAL RESOURCE PARTNERS LP
Form 10-Q
November 07, 2014
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, 2014

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-31465

NATURAL RESOURCE PARTNERS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**35-2164875**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

601 Jefferson Street, Suite 3600

Houston, Texas 77002

(Address of principal executive offices)

(Zip Code)

(713) 751-7507

(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 ¨

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 (§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 ¨

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 definition of accelerated filer , large accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer ¨
Non-accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

At November 7, 2014 there were 122,278,412 Common Units outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

Statements included in this Quarterly Report on Form 10-Q are forward-looking statements. In addition, we and our representatives may from time to time make other oral or written statements that are also forward-looking statements.

Such forward-looking statements include, among other things, statements regarding:

- our business strategy;
- our financial strategy;
- prices of and demand for coal, hydrocarbons, aggregates and industrial minerals;
- estimated revenues, expenses and results of operations;
- the amount, nature and timing of capital expenditures;
- our ability to make acquisitions;
- our liquidity and access to capital;
- projected production levels by our lessees;
- OCI Wyoming s trona mining and soda ash refinery operations;
- our acquisition of VantaCore and the Kaiser-Francis assets;
- the impact of governmental policies, laws and regulations, as well as regulatory and legal proceedings involving us and of scheduled or potential regulatory or legal changes; and
- global and U.S. economic conditions.

These forward-looking statements speak only as of the date hereof and are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

You should not put undue reliance on any forward-looking statements. See Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013 and Item 1A. Risk Factors in this Quarterly Report on Form 10-Q for important factors that could cause our actual results of operations or our actual financial condition to differ.

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

NATURAL RESOURCE PARTNERS L.P.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for unit information)

ASSETS

	September 30, 2014 (Unaudited)	December 31, 2013
Current assets:		
Cash and cash equivalents	$ 78,126	$ 92,513
Accounts receivable, net of allowance for doubtful accounts	33,954	33,737
Accounts receivable affiliates	10,547	7,666
Other	899	1,691
Total current assets	123,526	135,607
Land	24,338	24,340
Plant and equipment, net	22,839	26,435
Mineral rights, net	1,385,919	1,405,455
Intangible assets, net	58,696	66,950
Equity and other unconsolidated investments	262,414	269,338
Loan financing costs, net	9,841	11,502
Long-term contracts receivable affiliate	50,411	51,732
Other assets	560	497
Total assets	$ 1,938,544	$ 1,991,856

LIABILITIES AND PARTNERS CAPITAL

	September 30, 2014 (Unaudited)	December 31, 2013
Current liabilities:		
Accounts payable and accrued liabilities	$ 13,907	$ 8,659
Accounts payable affiliates	485	391
Current portion of long-term debt	80,983	80,983
Accrued incentive plan expenses current portion	6,535	8,341
Property, franchise and other taxes payable	5,764	7,830
Accrued interest	20,376	17,184
Total current liabilities	128,050	123,388
Deferred revenue	153,931	142,586
Accrued incentive plan expenses	6,887	10,526

Other non-current liabilities	9,712	14,341
Long-term debt	1,017,498	1,084,226
Partners capital:		
Common units outstanding: (111,351,722 and 109,812,408)	613,176	606,774
General partner s interest	10,212	10,069
Non-controlling interest	(650)	324
Accumulated other comprehensive loss	(272)	(378)
Total partners capital	622,466	616,789
Total liabilities and partners capital	$ 1,938,544	$ 1,991,856

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

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per unit data)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(Unaudited)			
Revenues and other income:				
Coal related revenues	$ 65,193	$ 62,004	$ 172,927	$ 207,236
Aggregate related revenues	2,655	3,789	9,614	9,662
Oil and gas related revenues	9,601	3,886	37,481	9,742
Equity and other unconsolidated investment income	9,685	7,238	28,865	22,168
Property taxes	3,520	4,009	10,865	11,805
Other	955	1,311	2,727	2,760
Total revenues and other income	91,609	82,237	262,479	263,373
Operating expenses:				
Depreciation, depletion and amortization	18,621	17,852	49,618	50,025
Asset impairments			5,624	734
General and administrative	7,664	7,305	22,550	27,769
Property, franchise and other taxes	4,767	4,234	15,836	12,810
Oil and gas lease operating expenses	2,147	483	6,359	483
Transportation costs	354	455	1,238	1,242
Royalty payments	3,029	284	3,385	826
Total operating expenses	36,582	30,613	104,610	93,889
Income from operations	55,027	51,624	157,869	169,484
Other income (expense)				
Interest expense	(18,862)	(15,516)	(57,759)	(44,619)
Interest income	8	18	75	232
Income before non-controlling interest	36,173	36,126	100,185	125,097
Non-controlling interest				
Net income	$ 36,173	$ 36,126	$ 100,185	$ 125,097
Net income attributable to:				
General partner	$ 723	$ 723	$ 2,004	$ 2,502
Limited partners	$ 35,450	$ 35,403	$ 98,181	$ 122,595
Basic and diluted net income per limited partner unit	$ 0.32	$ 0.32	$ 0.89	$ 1.12
Weighted average number of units outstanding	111,244	109,812	110,504	109,507

Comprehensive income	$ 36,543	$ 36,167	$ 100,291	$ 125,243

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

Table of Contents

NATURAL RESOURCE PARTNERS L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended September 30, 2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 100,185	$ 125,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	49,618	50,025
Gain on reserve swap	(5,690)	(8,149)
Equity and other unconsolidated investment income	(28,865)	(22,168)
Distributions of earnings from unconsolidated investments	32,225	24,113
Non-cash interest charge, net	2,145	1,454
Gain on sale of assets	(3)	(551)
Asset impairment	5,624	734
Change in operating assets and liabilities:		
Accounts receivable	(7,542)	9,477
Other assets	750	864
Accounts payable and accrued liabilities	1,623	792
Accrued interest	3,192	(2,598)
Deferred revenue	11,345	13,331
Accrued incentive plan expenses	(5,445)	(80)
Property, franchise and other taxes payable	(2,066)	(2,826)
Net cash provided by operating activities	157,096	189,515
Cash flows from investing activities:		
Acquisition of plant and equipment	(207)	
Acquisition of land, coal, other mineral rights and related intangibles	(768)	(38,303)
Oil and gas capital expenditures	(13,267)	
Acquisition of equity interests		(293,077)
Distributions from unconsolidated affiliates	3,633	48,833
Proceeds from sale of assets	5	559
Return on direct financing lease and contractual override	910	841
Net cash used in investing activities	(9,694)	(281,147)
Cash flows from financing activities:		
Proceeds from loans	2,000	547,020
Repayment of loans	(69,175)	(386,230)
Deferred financing costs		(9,061)

Proceeds from issuance of common units	24,826	75,000
Capital contribution by general partner	507	1,531
Costs associated with equity transactions	(601)	(60)
Distributions to partners	(119,346)	(186,317)
Net cash (used in) provided by financing activities	(161,789)	41,883
Net decrease in cash and cash equivalents	(14,387)	(49,749)
Cash and cash equivalents at beginning of period	92,513	149,424
Cash and cash equivalents at end of period	$ 78,126	$ 99,675
Supplemental cash flow information:		
Cash paid during the period for interest	$ 52,266	$ 45,716

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

Table of Contents

NATURAL RESOURCE PARTNERS L.P.

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL

(In thousands, except unit data)

(Unaudited)

	Common Units		General Partner	Non-Controlling Interest	Accumulated Other Comprehensive Income (Loss)	
	Units	**Amounts**	**Amounts**	**Amounts**		**Total**
Balance at December 31, 2013	109,812,408	$ 606,774	$ 10,069	$ 324	$ (378)	$ 616,789
Issuance of common units	1,539,314	24,826				24,826
Capital contribution			507			507
Cost associated with equity transactions		(601)				(601)
Distributions		(116,005)	(2,367)	(974)		(119,346)
Net income		98,181	2,004			100,185
Interest rate swap from unconsolidated investments					69	69
Loss on interest hedge					37	37
Comprehensive income					106	100,291
Balance at September 30, 2014	111,351,722	$ 613,176	$ 10,212	$ (650)	$ (272)	$ 622,466

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

7

Table of Contents

NATURAL RESOURCE PARTNERS L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Organization

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for future periods.

You should refer to the information contained in the footnotes included in Natural Resource Partners L.P. s 2013 Annual Report on Form 10-K in connection with the reading of these unaudited interim consolidated financial statements.

Natural Resource Partners L.P. (the Partnership) engages principally in the business of owning, managing and leasing a diversified portfolio of mineral properties in the United States, including interests in coal, an equity investment in trona and soda ash, oil and gas, construction aggregates, frac sand and other natural resources. The Partnership s coal reserves are located in the three major U.S. coal-producing regions: Appalachia, the Illinois Basin and the Western United States, as well as lignite reserves in the Gulf Coast region. The Partnership does not operate any mines, but leases its reserves to experienced mine operators under long-term leases that grant the operators the right to mine and sell its reserves in exchange for royalty payments. The Partnership also owns and manages infrastructure assets that generate additional revenues, primarily in the Illinois Basin.

The Partnership owns various interests in oil and gas properties that are located in the Williston Basin, the Appalachian Basin, Louisiana and Oklahoma. The Partnership s interests in the Appalachian Basin, Louisiana and Oklahoma are minerals and royalty interests, while in the Williston Basin the Partnership owns non-operated working interests. The Partnership owns aggregate reserves located in a number of states across the country, some of which are leased to third party operators who mine and sell the reserves in exchange for royalty payments. In addition, the Partnership owns a 49% interest in OCI Wyoming LLC (OCI Wyoming), a trona ore mining operation and soda ash refinery in the Green River Basin, Wyoming. See Note 4. Equity and Other Investments for more information concerning this investment.

The general partner of the Partnership is NRP (GP) LP, a Delaware limited partnership, whose general partner is GP Natural Resource Partners LLC, a Delaware limited liability company.

Table of Contents

2. Significant Accounting Policies Update

Reclassification

Certain reclassifications have been made to the Consolidated Statements of Comprehensive Income. Amounts relating to prior year s coal royalties, processing fees, transportation fees, minimums recognized as revenue, override royalties and other have been reclassified into a single line item Coal related revenues on this year s Consolidated Statements of Comprehensive Income. Amounts relating to prior year s aggregates royalties, processing fees, minimums recognized as revenue, override royalties and other have been reclassified into a single line item Aggregates related revenues on this year s Consolidated Statements of Comprehensive Income. The following is reclassification reconciliation:

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	As Reported	As Reclassified		As Reported	As Reclassified	
	Total	Coal Related Revenues	Aggregate Related Revenues	Total	Coal Related Revenues	Aggregate Related Revenues
	(In thousands) (Unaudited)					
Revenues:						
Coal royalties	$ 52,305	$ 52,305	$	$ 164,957	$ 164,957	$
Equity and other unconsolidated investment income	7,238			22,168		
Aggregate royalties	2,566		2,566	5,869		5,869
Processing fees	1,377	1,263	114	3,886	3,511	375
Transportation fees	4,742	4,742		13,499	13,499	
Oil and gas royalties	3,886			9,742		
Property taxes	4,009			11,805		
Minimums recognized as revenue	998	626	372	6,425	5,613	812
Override royalties	2,927	2,269	658	11,011	8,713	2,298
Other	2,189	799	79	14,011	10,943	308
Total revenues	$ 82,237	$ 62,004	$ 3,789	$ 263,373	$ 207,236	$ 9,662

Recent Accounting Pronouncements

In May 2014, the FASB amended revenue recognition topics and created a new topic relating to revenue recognition that will supersede existing guidance under U.S. GAAP. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to the customer and in an amount that reflects the consideration expected in exchange for those goods or services. To achieve this core principle, an entity should (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied**.** The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. Disclosure requirements include sufficient qualitative and quantitative information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The new topic is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The guidance allows for either full adoption or a modified retrospective adoption. The Partnership is currently evaluating the requirements to determine the impact, if any, of this new topic on its financial position, results of operations and cash flows.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on the Partnership s financial position, results of operations or cash flows.

3. Recent Acquisitions

Sundance. On December 19, 2013, the Partnership completed the acquisition of non-operated working interests in oil and gas properties in the Williston Basin of North Dakota from Sundance Energy, Inc. for $29.4 million, following post-closing purchase price adjustments. The Partnership accounted for the transaction in accordance with the authoritative guidance for business combinations. During the third quarter of 2014, the Partnership finalized the determination of the fair value of the assets acquired and liabilities assumed in the acquisition, with no material adjustments. The assets acquired are included in Mineral rights in the accompanying Consolidated Balance Sheets.

Abraxas. On August 9, 2013, the Partnership completed the acquisition of non-operated working interests in oil and gas properties in the Williston Basin of North Dakota and Montana from Abraxas Petroleum for $38.0 million, following post-closing purchase price adjustments. The Partnership accounted for the transaction in accordance with the authoritative guidance for business combinations. During the second quarter of 2014, the Partnership finalized the determination of the fair values of the assets acquired and liabilities assumed in the acquisition, with no material adjustments. The assets acquired are included in Mineral rights on the accompanying Consolidated Balance Sheets.

Abraxas and Sundance combined revenues of $28.6 million and lease operating expenses of $6.4 million for the nine months ended September 30, 2014 are included in Oil and gas related revenues and Oil and gas lease operating expenses, respectively, in the accompanying Consolidated Statements of Comprehensive Income.

Table of Contents

4. Equity and Other Investments

The following summarized results of operations were taken from the OCI Wyoming-prepared unaudited financial statements.

Operating results:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands) (Unaudited)			
Sales	$ 109,785	$ 105,567	$ 338,996	$ 324,559
Gross profit	$ 28,487	$ 20,545	$ 83,210	$ 63,860
Net income	$ 22,795	$ 16,323	$ 67,952	$ 53,281
Income allocation to NRP s equity interests	$ 11,170	$ 7,951	$ 33,300	$ 24,113
Less amortization of basis difference	(1,485)	(713)	(4,435)	(1,945)
Equity and other unconsolidated investment income	$ 9,685	$ 7,238	$ 28,865	$ 22,168

For both the three and nine months ended September 30, 2014, the Partnership derived 11% of its revenues and other income from its equity investment in OCI Wyoming. For the same periods of 2013, the Partnership derived 9% and 8%, respectively, of its revenues and other income from its equity investment in OCI Wyoming.

The terms of the OCI Wyoming acquisition agreement included provisions for the payment of contingent consideration to Anadarko Holding Company if OCI Wyoming achieves certain earnings results in 2013, 2014 or 2015. The Partnership projected that the contingency would be $15 million at December 31, 2013.

The Partnership s contingent consideration consists of the following:

	September 30, 2014 (In thousands) (Unaudited)
Contingent consideration, January 1, 2014	$ 15,000
Less: consideration paid during the period	(491)
Contingent consideration, end of the period	14,509
Less: current portion of contingent consideration	(4,900)
Long-term contingent consideration	$ 9,609

The current portion is included in Accounts payable and accrued liabilities and the long term portion is included in Other non-current liabilities on the accompanying Consolidated Balance Sheets.

In March 2014, Anadarko Holding Company (Anadarko) gave written notice to the Partnership that Anadarko believes the reorganization transactions that occurred at OCI Wyoming in July 2013 triggered an acceleration of the Partnership s obligation to pay the additional contingent consideration in full and demanded immediate payment of such amount. The Partnership does not believe the reorganization transactions triggered an obligation to pay the additional contingent consideration, and the Partnership will continue to engage in discussions with Anadarko to resolve the issue. However, if Anadarko were to prevail on such claim, the Partnership would be required to pay an amount to Anadarko in excess of the $15 million contingency described above up to the net present value of $50 million (the maximum amount of the additional contingent consideration). Any such additional amount would be considered to be additional acquisition consideration and added to Equity and other unconsolidated investments.

Table of Contents

5. Plant and Equipment

The Partnership s plant and equipment consist of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
	(Unaudited)	
Work in process	$ 207	$
Plant and equipment at cost	55,271	55,271
Less accumulated depreciation	(32,639)	(28,836)
Net book value	$ 22,839	$ 26,435

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
	(Unaudited)	
Total depreciation expense on plant and equipment	$ 3,803	$ 4,698

6. Mineral Rights

The Partnership s mineral rights consist of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
	(Unaudited)	
Mineral rights	$ 1,918,570	$ 1,894,920
Less accumulated depletion and amortization	(532,651)	(489,465)
Net book value	$ 1,385,919	$ 1,405,455

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
	(Unaudited)	
Total depletion and amortization expense on mineral rights	$ 43,185	$ 42,671

On April 7, 2014, one of the Partnership s lessees, James River Coal Company, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. At end of the second quarter of 2014, the net book value of the Partnership s properties leased to James River was approximately $35 million, net of previously paid minimums. During the third quarter, certain of the leases, with a book value of $17 million net of previously paid minimums, were sold to Blackhawk Mining, which was already a lessee of the Partnership. Certain of the James River assets, some of which are subject to the Partnership s leases, are still in bankruptcy and are in the process of being sold. If those remaining Partnership leases are rejected in the bankruptcy or if mining operations on the Partnership s properties cease, the Partnership may determine that some or all of such properties are impaired. In the first nine months of 2014, those James River leases which remain in bankruptcy accounted for less than 1% of total revenues and other income, and for the year ended December 31, 2013, such leases represented less than 1% of total revenues and other income. The Partnership does not expect the resolution of the bankruptcy with regard to the remaining leases to have a material impact on its revenues and other income. The Partnership will continue to monitor these properties for potential impairment as the bankruptcy proceedings progress.

Table of Contents

7. Intangible Assets

Amounts recorded as intangible assets along with the balances and accumulated amortization are reflected in the table below:

	September 30, 2014	December 31, 2013
	(In thousands)	
	(Unaudited)	
Contract intangibles	$ 83,700	$ 89,421
Less accumulated amortization	(25,004)	(22,471)
Net book value	$ 58,696	$ 66,950

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
	(Unaudited)	
Total amortization expense on intangible assets	$ 2,630	$ 2,656

During the second quarter of 2014, the Partnership recognized an impairment expense of $5.6 million relating to an above market contract on an aggregates property. The asset impairment expense is included in Operating costs and expenses on the accompanying Consolidated Statements of Comprehensive Income.

The estimates of future amortization expense relating to intangible assets for the periods indicated below are based on current mining plans, which are subject to revision in future periods.

	Estimated Amortization Expense (In thousands) (Unaudited)
Remainder of 2014	$ 466
For year ended December 31, 2015	3,513
For year ended December 31, 2016	3,470
For year ended December 31, 2017	3,470
For year ended December 31, 2018	3,470

Table of Contents

8. Long-Term Debt

As used in this Note 8, references to NRP LP refer to Natural Resource Partners L.P. only, and not to NRP (Operating) LLC or any of Natural Resource Partners L.P. s other subsidiaries. References to Opco refer to NRP (Operating) LLC and its subsidiaries. References to NRP Oil and Gas refer to NRP Oil and Gas LLC, a wholly owned subsidiary of NRP LP. NRP Finance Corporation (NRP Finance) is a wholly owned subsidiary of NRP LP and a co-issuer with NRP LP on the 9.125% senior notes.

Long-term debt consists of the following:

	September 30, 2014	December 31, 2013
	(In thousands)	
NRP LP Debt:	(Unaudited)	
$300 million 9.125% senior notes, with semi-annual interest payments in April and October, maturing October 2018, issued at 99.007%	$ 297,617	$ 297,170
Opco Debt:		
$300 million floating rate revolving credit facility, due August 2016	7,000	20,000
$200 million floating rate term loan, due January 2016	99,000	99,000
4.91% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2018	18,467	23,084
8.38% senior notes, with semi-annual interest payments in March and September, with annual principal payments in March, maturing in March 2019	107,143	128,571
5.05% senior notes, with semi-annual interest payments in January and July, with annual principal payments in July, maturing in July 2020	46,154	53,846
5.31% utility local improvement obligation, with annual principal and interest payments, maturing in March 2021	1,346	1,538
5.55% senior notes, with semi-annual interest payments in June and December, with annual principal payments in June, maturing in June 2023	24,300	27,000
4.73% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2023	75,000	75,000
5.82% senior notes, with semi-annual interest payments in March and September, with annual principal payments in March, maturing in March 2024	150,000	165,000
8.92% senior notes, with semi-annual interest payments in March and September, with scheduled principal payments beginning March 2014, maturing in March 2024	45,454	50,000
5.03% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2026	175,000	175,000
5.18% senior notes, with semi-annual interest payments in June and December, with scheduled principal payments beginning December 2014, maturing in December 2026	50,000	50,000
NRP Oil and Gas Debt:		
Reserve-based floating rate revolving credit facility due August 2018	2,000	

Total debt	1,098,481	1,165,209
Less current portion of long term debt	(80,983)	(80,983)
Long-term debt	$ 1,017,498	$ 1,084,226

NRP LP Debt

Senior Notes. In September 2013, NRP LP, together with NRP Finance as co-issuer, issued $300 million of 9.125% senior notes at an offering price of 99.007% of par value. Net proceeds after expenses related to the issuance of the senior notes of approximately $289.0 million were used to repay all of the outstanding borrowings under Opco s revolving credit facility and $91.0 million of Opco s term loan. The senior notes call for semi-annual interest payments on April 1 and October 1 of each year. The notes will mature on October 1, 2018.

The indenture for the senior notes contains covenants that, among other things, limit the ability of NRP LP and certain of its subsidiaries to incur or guarantee additional indebtedness. Under the indenture, NRP LP and certain of its subsidiaries generally are not permitted to incur additional indebtedness unless, on a consolidated basis, the fixed charge coverage ratio (as defined in the indenture) is at least 2.0 to 1.0 for the four preceding full fiscal quarters. The ability of NRP LP and certain of its subsidiaries to incur additional indebtedness is further limited in the event the amount of indebtedness of NRP LP and certain of its subsidiaries that is senior to NRP LP s unsecured indebtedness exceeds certain thresholds.

Opco Debt

Senior Notes. Opco made principal payments of $56.0 million on its senior notes during the nine months ended September 30, 2014. The Opco senior note purchase agreement contains covenants requiring Opco to:

- Maintain a ratio of consolidated indebtedness to consolidated EBITDDA (as defined in the note purchase agreement) of no more than 4.0 to 1.0 for the four most recent quarters;
- not permit debt secured by certain liens and debt of subsidiaries to exceed 10% of consolidated net tangible assets (as defined in the note purchase agreement); and
- maintain the ratio of consolidated EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated operating lease expense) at not less than 3.5 to 1.0.

The 8.38% and 8.92% senior notes also provide that in the event that Opco s leverage ratio exceeds 3.75 to 1.00 at the end of any fiscal quarter, then in addition to all other interest accruing on these notes, additional interest in the amount of 2.00% per annum shall accrue on the notes for the two succeeding quarters and for as long thereafter as the leverage ratio remains above 3.75 to 1.00.

Revolving Credit Facility. The weighted average interest rates for the debt outstanding under Opco s revolving credit facility for the nine months ended September 30, 2014 and year ended December 31, 2013 were 1.96% and 2.23%, respectively. Opco incurs a commitment fee on the undrawn portion of the revolving credit facility at rates ranging from 0.18% to 0.40% per annum. The facility includes an accordion feature whereby Opco may request its lenders to increase their aggregate commitment to a maximum of $500 million on the same terms. At September 30, 2014 Opco had $7 million drawn under the credit facility.

Opco s revolving credit facility contains covenants requiring Opco to maintain:

- a ratio of consolidated indebtedness to consolidated EBITDDA (as defined in the credit agreement) not to exceed 4.0 to 1.0 and,
- a ratio of consolidated EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated lease operating expense) of not less than 3.5 to 1.0 for the four most recent quarters.

Term Loan Facility. During 2013, Opco issued $200 million in term debt. The weighted average interest rates for the debt outstanding under the term loan for the nine months ended September 30, 2014 and the year ended December 31, 2013 were 2.23% and 2.43%, respectively. Opco repaid $101 million in principal under the term loan during the third quarter of 2013. Repayment terms call for the remaining outstanding balance of $99 million to be paid in January 2016. The debt is unsecured but guaranteed by the subsidiaries of Opco.

Opco s term loan contains covenants requiring Opco to maintain:

- a ratio of consolidated indebtedness to consolidated EBITDDA (as defined in the credit agreement) not to exceed 4.0 to 1.0 and,

- a ratio of consolidated EBITDDA to consolidated fixed charges (consisting of consolidated interest expense and consolidated lease operating expense) of not less than 3.5 to 1.0 for the four most recent quarters.

NRP Oil and Gas Debt

Revolving Credit Facility. In August 2013, NRP Oil and Gas entered into a 5-year, $100 million senior secured, reserve-based revolving credit facility in order to fund capital expenditure requirements related to the development of non-operated working interests in oil and gas assets. The credit facility had a borrowing base of $20.0 million as of September 30, 2014 and is secured by a first priority lien and security interest in substantially all of the assets of NRP Oil and Gas. At September 30, 2014, there was $2.0 million outstanding under the credit facility. The weighted average interest rate for the debt outstanding under the credit facility for the nine months ended September 30, 2014 was 1.90%.

Indebtedness under the NRP Oil and Gas credit facility bears interest, at the option of NRP Oil and Gas, at either:

- the higher of (i) the prime rate as announced by the agent bank; (ii) the federal funds rate plus 0.50%; or (iii) LIBOR plus 1%, in each case plus an applicable margin ranging from 0.50% to 1.50%; or

- a rate equal to LIBOR, plus an applicable margin ranging from 1.75% to 2.75%.

Table of Contents

NRP Oil and Gas will incur a commitment fee on the unused portion of the borrowing base under the credit facility at a rate ranging from 0.375% to 0.50% per annum.

The NRP Oil and Gas credit facility contains certain covenants, which, among other things, require the maintenance of:

- a total leverage ratio (defined as the ratio of the total debt of NRP Oil and Gas to its EBITDAX) of not more than 3.5 to 1.0; and

- a minimum current ratio of 1.0 to 1.0.

Consolidated Principal Payments

The consolidated principal payments due as of September 30, 2014 are set forth below:

	NRP LP Senior Notes	Opco Senior Notes	Opco Credit Facility	Opco Term Loan	NRP Oil & Gas Credit Facility	Total
			(In thousands) (Unaudited)			
2014	$	$ 24,808	$	$	$	$ 24,808
2015		80,983				80,983
2016		80,983	7,000	99,000		186,983
2017		80,983				80,983
2018	300,000[(1)]	80,983			2,000	382,983
Thereafter		344,124				344,124
	$ 300,000	$ 692,864	$ 7,000	$ 99,000	$ 2,000	$ 1,100,864

(1) The 9.125% senior notes due 2018 were issued at a discount and as of September 30, 2014 were carried at $297.6 million.

NRP LP, Opco and NRP Oil and Gas were in compliance with all terms under their long-term debt as of September 30, 2014.

9. Fair Value

The Partnership s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The carrying amount of the Partnership s financial instruments included in accounts receivable and accounts payable in the accompanying Consolidated Balance Sheets approximates their fair value due to their short-term nature except for the Accounts receivable affiliates relating to the Sugar Camp override that includes both current and long-term portions. The Partnership s cash and cash equivalents include money market accounts and are considered a Level 1 measurement. The fair market value and carrying value of the contractual override and long-term senior notes are as follows:

	Fair Value As Of		Carrying Value As Of	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
	(In thousands)			
	(Unaudited)		(Unaudited)	
Assets				
Sugar Camp override, current and long-term	$ 6,534	$ 6,852	$ 6,227	$ 6,063
Liabilities				
Long-term debt, current and long-term	$ 993,935	$ 1,071,880	$ 990,480	$ 1,046,209

The fair value of the Sugar Camp override and long-term debt is estimated by management using comparable term risk-free treasury issues with a market rate component determined by current financial instruments with similar characteristics which is a Level 3 measurement. Since the Partnership s credit facilities and term loan are variable rate debt, their fair values approximate their carrying amounts.

15

Table of Contents

10. Related Party Transactions

Reimbursements to Affiliates of the Partnership s General Partner

The Partnership s general partner does not receive any management fee or other compensation for its management of Natural Resource Partners L.P. However, in accordance with the partnership agreement, the general partner and its affiliates are reimbursed for expenses incurred on the Partnership s behalf. All direct general and administrative expenses are charged to the Partnership as incurred. The Partnership also reimburses indirect general and administrative costs, including certain legal, accounting, treasury, information technology, insurance, administration of employee benefits and other corporate services incurred by our general partner and its affiliates. The Partnership had an amount payable to Quintana Minerals Corporation of $0.5 million at September 30, 2014 for services provided by Quintana to the Partnership.

The reimbursements to affiliates of the Partnership s general partner for services performed by Western Pocahontas Properties and Quintana Minerals Corporation are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands) (Unaudited)			
Reimbursement for services	$ 2,927	$ 2,748	$ 8,708	$ 8,481

The Partnership also leases an office building in Huntington, West Virginia from Western Pocahontas Properties and pays $0.6 million in lease payments each year through December 31, 2018.

Cline Affiliates

Various companies controlled by Chris Cline, including Foresight Energy, lease coal reserves from the Partnership, and the Partnership provides coal transportation services to them for a fee. Mr. Cline, both individually and through another affiliate, Adena Minerals, LLC, owns a 31% interest (unaudited) in the Partnership s general partner, as well as 4,917,548 common units (unaudited) at September 30, 2014. At September 30, 2014, the Partnership had accounts receivable totaling $10.3 million from Cline affiliates. In addition, the overriding royalty and the lease of the loadout facility at Foresight Energy s Sugar Camp mine are classified as contracts receivable of $50.4 million on the Partnership s Consolidated Balance Sheets. The Partnership has received $82.7 million in minimum royalty payments that have not been recouped by Cline affiliates, of which $11.7 million was received in the current year.

Coal related revenues from Cline affiliates were $24.9 million and $21.0 million and $63.1 million and $68.4 million, for the three and nine months ended September 30, 2014 and 2013, respectively. For the nine months ending September 30, 2013, the results included $8.1 million from a reserve swap and $3.5 million from minimums that expired on Foresight Energy s Macoupin mine and were recognized as revenue. For the nine months ended September 30, 2014 the results included $5.7 million from a reserve swap.

The Partnership entered into a lease agreement related to the rail loadout and associated facilities at Sugar Camp that has been accounted for as a direct financing lease. Total projected remaining payments under the lease at

September 30, 2014 are $87.6 million with unearned income of $40.0 million. The net amount receivable under the lease as of September 30, 2014 was $47.6 million, of which $1.8 million is included in Accounts receivable affiliates while the remaining is included in Long-term contracts receivable affiliate on the accompanying Consolidated Balance Sheets.

In a separate transaction, the Partnership acquired a contractual overriding royalty interest from a Cline affiliate that provides for payments based upon production from specific tons at the Sugar Camp operations. This overriding royalty was accounted for as a financing arrangement and is reflected as an affiliate receivable. The net amount receivable under the agreement as of September 30, 2014 was $6.2 million, of which $1.6 million is included in Accounts receivable affiliates while the remaining is included in Long-term contracts receivable affiliate on the accompanying Consolidated Balance Sheets.

Quintana Capital Group GP, Ltd.

Corbin J. Robertson, Jr. is a principal in Quintana Capital Group GP, Ltd., which controls several private equity funds focused on investments in the energy business. In connection with the formation of Quintana Capital, the Partnership adopted a formal conflicts policy that establishes the opportunities that will be pursued by the Partnership and those that will be pursued by Quintana Capital. The governance documents of Quintana Capital s affiliated investment funds reflect the guidelines set forth in the Partnership s conflicts policy.

Table of Contents

At September 30, 2014, a fund controlled by Quintana Capital owned a majority interest in Corsa Coal Corp., a coal mining company traded on the TSX Venture Exchange that is one of the Partnership s lessees in Tennessee. Corbin J. Robertson III, one of the Partnership s directors, is Chairman of the Board of Corsa. Revenues from Corsa are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands) (Unaudited)			
Coal royalty revenues	$ 655	$ 1,249	$ 2,218	$ 3,403

The Partnership also had accounts receivable totaling $0.2 million from Corsa at September 30, 2014.

A fund controlled by Quintana Capital owned a significant membership interest in Taggart Global USA, LLC, including the right to nominate two members of Taggart s 5-person board of directors. Subsequent to the end of the second quarter of 2013, Taggart was sold to Forge Group, and Quintana no longer retains an interest in Taggart or Forge. The Partnership owns and leases preparation plants to Forge, which operates the plants. The lease payments were based on the sales price for the coal that was processed through the facilities.

Revenues from Forge for the nine months ended September 30, 2013 were $1.8 million. Subsequent to the end of the second quarter of 2013, Taggart/Forge is no longer considered a related party of the Partnership.

11. Commitments and Contingencies

Legal

The Partnership is involved, from time to time, in various legal proceedings arising in the ordinary course of business. While the ultimate results of these proceedings cannot be predicted with certainty, Partnership management believes these claims will not have a material effect on the Partnership s financial position, liquidity or operations.

Environmental Compliance

The operations conducted on the Partnership s properties are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. As owner of surface interests in some properties, the Partnership may be liable for certain environmental conditions occurring at the surface properties. The terms of substantially all of the Partnership s leases require the lessee to comply with all applicable laws and regulations, including environmental laws and regulations. Lessees post reclamation bonds assuring that reclamation will be completed as required by the relevant permit, and substantially all of the leases require the lessee to indemnify the Partnership against, among other things, environmental liabilities. Some of these indemnifications survive the termination of the lease. The Partnership has neither incurred, nor is aware of, any material environmental charges imposed on it related to its properties as of September 30, 2014. The Partnership is not associated with any environmental contamination that may require remediation costs.

Table of Contents

12. Major Lessees

Revenues from lessees that exceeded ten percent of total revenues and other income for the periods are presented below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2014		2013		2014		2013	
	(Dollars in thousands) (Unaudited)							
	Revenues	Percent	Revenues	Percent	Revenues	Percent	Revenues	Percent
The Cline Group	$ 24,863	27%	$ 21,046	26%	$ 63,116	24%	$ 68,359	26%
Alpha Natural Resources	$ 14,406	16%	$ 12,937	16%	$ 38,857	15%	$ 41,844	16%

In the first nine months of 2014, the Partnership derived over 39% of its total revenues and other income from the two companies listed above. The Partnership has a significant concentration of revenues with Cline and Alpha, although in most cases, with the exception of the Williamson mine, the exposure is spread out over a number of different mining operations and leases. Foresight Energy s Williamson mine was responsible for approximately 16% and 12%, respectively, of the Partnership s total revenues and other income for the three and nine months ended September 30, 2014.

13. Incentive Plans

GP Natural Resource Partners LLC adopted the Natural Resource Partners Long-Term Incentive Plan (the Long-Term Incentive Plan) for directors of GP Natural Resource Partners LLC and employees of its affiliates who perform services for the Partnership. The Compensation, Nominating and Governance (CNG) Committee of GP Natural Resource Partners LLC s board of directors administers the Long-Term Incentive Plan. Subject to the rules of the exchange upon which the common units are listed at the time, the board of directors and the CNG Committee of the board of directors have the right to alter or amend the Long-Term Incentive Plan or any part of the Long-Term Incentive Plan from time to time. Except upon the occurrence of unusual or nonrecurring events, no change in any outstanding grant may be made that would materially reduce the benefit intended to be made available to a participant without the consent of the participant.

Under the plan a grantee will receive the market value of a common unit in cash upon vesting. Market value is defined as the average closing price over the last 20 trading days prior to the vesting date. The CNG Committee may make grants under the Long-Term Incentive Plan to employees and directors containing such terms as it determines, including the vesting period. Outstanding grants vest upon a change in control of the Partnership, the general partner, or GP Natural Resource Partners LLC. If a grantee s employment or membership on the board of directors terminates for any reason, outstanding grants will be automatically forfeited unless and to the extent the CNG Committee provides otherwise.

A summary of activity in the outstanding grants during 2014 is as follows:

(Unaudited)

Outstanding grants at January 1, 2014	1,012,984
Grants during the year	313,699
Grants vested and paid during the year	(285,500)
Forfeitures during the year	(28,460)
Outstanding grants at September 30, 2014	1,012,723

Grants typically vest at the end of a four-year period and are paid in cash upon vesting. The liability fluctuates with the market value of the Partnership units and because of changes in estimated fair value determined each quarter using the Black-Scholes option valuation model. Risk free interest rates and volatility are reset at each calculation based on current rates corresponding to the remaining vesting term for each outstanding grant and ranged from 0.12% to 1.06% and 28.80% to 29.92%, respectively at September 30, 2014. The Partnership s average distribution rate of 7.4% and historical forfeiture rate of 5.2% were used in the calculation at September 30, 2014. The Partnership recorded expenses related to its plan to be reimbursed to its general partner of $1.1 million and $0.6 million for the three months ended September 30, 2014 and 2013, respectively, and for the nine months ended September 30, 2014 and 2013 the Partnership recorded expense of $1.5 million and $7.5 million, respectively. In connection with the Long-Term Incentive Plan, payments are typically made during the first quarter of the year. Payments of $6.5 million and $7.0 million were made during the nine month period ended September 30, 2014 and 2013, respectively.

Table of Contents

In connection with the phantom unit awards, the CNG Committee also granted tandem Distribution Equivalent Rights, or DERs, which entitle the holders to receive distributions equal to the distributions paid on the Partnership s common units. The DERs are payable in cash upon vesting but may be subject to forfeiture if the grantee ceases employment prior to vesting.

The unaccrued cost, associated with the unvested outstanding grants and related DERs at September 30, 2014 was $7.7 million.

14. Shelf Registration Statements and At-the-Market Program

On April 24, 2012, the Partnership filed an automatically effective shelf registration statement on Form S-3 with the SEC that is available for registered offerings of common units and debt securities.

On August 15, 2012, the Partnership filed a shelf registration statement on Form S-3 that registered all of the common units held by Adena Minerals. This shelf registration statement was declared effective by the SEC on September 21, 2012. Following the effectiveness of this registration statement, Adena distributed 15,181,716 common units to its shareholders, and the Partnership subsequently filed prospectus supplements to register the resale of these common units by those shareholders. The shelf registration statement filed in August 2012 also registered up to $500 million in equity securities that may be issued by the Partnership. On November 12, 2013, the Partnership filed a prospectus supplement and entered into an Equity Distribution Agreement relating to the offer and sale from time to time of common units having an aggregate offering price of $75 million through one or more managers acting as sales agents at prices to be agreed upon at the time of sale. Under the terms of the Equity Distribution Agreement, the Partnership may also sell common units from time to time to any manager as principal for its own account at a price to be agreed upon at the time of sale. Any sale of common units to any manager as principal would be pursuant to the terms of a separate terms agreement between the Partnership and such manager. Sales of common units in this at-the-market (ATM) program are made pursuant to the shelf registration statement declared effective in September 2012. For the nine months ended September 30, 2014 the Partnership sold 1,539,314 common units for an average price of $16.13 for gross proceeds of $24.8 million. In addition, the Partnership paid the ATM program manager a fee of up to 2% of the gross proceeds from the sale of common units under the ATM program.

On April 12, 2013, the Partnership filed a resale shelf registration statement on Form S-3 to register the 3,784,572 common units issued in the January 2013 private placement related to funding of the OCI Wyoming acquisition. This shelf registration statement was declared effective by the SEC in May 2013. A portion of the common units issued in the private placement were issued, directly and indirectly, to certain of the Partnership s affiliates, including Corbin J. Robertson, Jr. and Christopher Cline.

15. Distributions

On August 14, 2014, the Partnership paid a quarterly distribution $0.35 per unit to all holders of common units on August 5, 2014.

16. Subsequent Events

The following represents material events that have occurred subsequent to September 30, 2014 through the time of the Partnership s filing of this Quarterly Report on Form 10-Q with the Securities and Exchange Commission:

Distributions

On October 20, 2014, the Partnership declared a distribution of $0.35 per unit to be paid on November 14, 2014 to holders of common units on November 5, 2014.

Distributions Received From Unconsolidated Equity and Other Investments

Subsequent to September 30, 2014, the Partnership received $10.8 million in cash distributions from its equity investment in OCI Wyoming.

Kaiser-Francis Acquisition

On October 5, 2014, the Partnership entered into a definitive agreement to acquire non-operated working interests in oil and gas assets located in the Bakken/Three Forks play from an affiliate of Kaiser-Francis Oil Company for $340 million, subject to customary purchase price adjustments. Upon entering into the agreement, the Partnership paid a deposit of $25 million. The assets include approximately 5,700 net acres in the Sanish Field in Mountrail County, North Dakota and include an estimated average working interest of 15% in approximately 200 wells that are producing or in various stages of development in addition to the opportunity to participate in future development locations. The assets are all held by production and are operated by Whiting Petroleum Corporation. The acquisition will have an effective date of October 1, 2014 and is expected to close in mid-November 2014, subject to the satisfaction of customary closing conditions.

Table of Contents

VantaCore Acquisition

On October 1, 2014, the Partnership completed its acquisition of VantaCore Partners LP (VantaCore), a privately held limited partnership specializing in the construction materials industry, for $205 million in cash and common units, subject to customary post-closing purchase price adjustments. Headquartered in Philadelphia, Pennsylvania, VantaCore operates three hard rock quarries, six sand and gravel plants, two asphalt plants and a marine terminal. VantaCore s current operations are located in Pennsylvania, West Virginia, Tennessee, Kentucky and Louisiana.

In order to fund the VantaCore acquisition, the Partnership borrowed $169 million under Opco s revolving credit facility and issued approximately 2.4 million common units to certain of the sellers. The closing price of the Partnership s common units on the date of issuance was $13.02 per unit. The Partnership s general partner s capital contribution to maintain its 2% general partner interest in the Partnership was approximately $0.6 million.

Equity Offering

On October 10, 2014 the Partnership sold 8.5 million common units in an underwritten public offering registered under the Securities Act of 1933, as amended, at a public offering price of $12.02 per common unit. In connection with the offering, the Partnership granted the underwriters a 30-day option to purchase up to 1,275,000 additional common units. The Partnership intends to use the net proceeds of approximately $100.4 million from this offering, including its general partner s proportionate capital contribution, to fund a portion of the purchase price of the Kaiser-Francis acquisition. The Partnership s general partner s capital contribution to maintain its 2% general partner interest in the Partnership was approximately $2.1 million.

Senior Notes

On October 17, 2014 the Partnership and NRP Finance Corporation (the Issuers) sold an additional $125 million aggregate principal amount of their 9.125% senior notes due 2018 in a private offering. The notes were issued pursuant to an indenture, dated September 18, 2013, among the Issuers and Wells Fargo Bank, National Association, as trustee. The notes constitute the same series of securities as the existing $300 million 9.125% senior notes due October 2018 issued in September 2013.

In the offering, $105 million in aggregate principal amount of the notes were sold in a private placement to the initial purchasers thereof to be offered and sold to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to persons outside the United States pursuant to Regulation S under the Securities Act. The remaining $20 million in aggregate principal amount of the notes were sold in a separate private placement to Cline Trust Company, LLC, a Delaware limited liability company. The members of Cline Trust Company, LLC are four trusts of which the beneficiaries are the children of Christopher Cline. Donald R. Holcomb, one of the members of the Board of Directors of GP Natural Resource Partners LLC, is a manager of Cline Trust Company, LLC and the trustee of each of the four trusts that are members of Cline Trust Company, LLC.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations should be read in conjunction with the historical financial statements and notes thereto included elsewhere in this filing and the financial statements and footnotes included in the Natural Resource Partners L.P. Annual Report on Form 10-K for the year ended December 31, 2013, as filed on February 28, 2014.

As used in this Item 2, unless the context otherwise requires: we, our and us refer to Natural Resource Partners L.P. and, where the context requires, our subsidiaries. References to NRP and Natural Resource Partners refer to Natural Resource Partners L.P. only, and not to NRP (Operating) LLC or any of Natural Resource Partners L.P. s subsidiaries. References to Opco refer to NRP (Operating) LLC and its subsidiaries. References to NRP Oil and Gas refer to NRP Oil and Gas LLC, a wholly owned subsidiary of NRP. NRP Finance Corporation (NRP Finance) is a wholly owned subsidiary of NRP and a co-issuer with NRP on the 9.125% senior notes.

Executive Overview

We engage principally in the business of owning, managing and leasing a diversified portfolio of mineral properties in the United States, including interests in coal, an equity investment in trona and soda ash, oil and gas, construction aggregates, frac sand and other natural resources. Executing on our plans to diversify our business, we have completed or announced over $900 million in acquisitions since January 2013. For the nine months ended September 30, 2014, we recognized approximately $172.9 million (66%) of our revenues and other income from coal-related sources, and $89.6 million (34%) of our revenues and other income from non-coal-related sources.

Our coal reserves are located in the three major U.S. coal-producing regions: Appalachia, the Illinois Basin and the Western United States, as well as lignite reserves in the Gulf Coast region. As of December 31, 2013, we owned or controlled approximately 2.3 billion tons of proven and probable coal reserves. We do not operate any mines, but lease our reserves to experienced mine operators under long-term leases that grant the operators the right to mine and sell our reserves in exchange for royalty payments. We also own and manage infrastructure assets that generate additional revenues, primarily in the Illinois Basin.

We own various interests in oil and gas properties that are located in the Williston Basin, the Appalachian Basin, Louisiana and Oklahoma. Our interests in the Appalachian Basin, Louisiana and Oklahoma are minerals and royalty interests, while in the Williston Basin we own non-operated working interests. On October 5, 2014, we entered into a definitive agreement to acquire additional non-operated working interests in oil and gas assets located in the Williston Basin from an affiliate of Kaiser-Francis Oil Company for $340 million in cash, subject to customary purchase price adjustments. The assets include approximately 5,700 net acres in the Sanish Field in Mountrail County, North Dakota and include an estimated average working interest of 15% in approximately 200 wells that were producing or in various stages of development as of the beginning of October 2014, in addition to the opportunity to participate in future development locations. The assets are all held by production and are operated by Whiting Petroleum Corporation. The acquisition is expected to close in mid-November.

As of December 31, 2013, we owned approximately 500 million tons of aggregate reserves located in a number of states across the country. Similar to our coal business, we lease these reserves to third party operators who mine and sell the reserves in exchange for royalty payments. On October 1, 2014, we acquired VantaCore Partners LP (now VantaCore Partners LLC) (VantaCore) for $205 million in cash and common units, subject to customary post-closing purchase price adjustments. VantaCore specializes in the construction materials industry and operates three hard rock quarries, six sand and gravel plants, two asphalt plants and a marine terminal. VantaCore s current operations are located in Pennsylvania, West Virginia, Tennessee, Kentucky and Louisiana. We internally estimate that VantaCore controlled approximately 295 million tons of aggregates reserves as of December 31, 2013.

We also own a 49% interest in a trona ore mining operation and soda ash refinery in the Green River Basin, Wyoming. OCI Resources LP, our operating partner, mines the trona, processes it into soda ash, and distributes the soda ash both domestically and internationally into the glass and chemicals industries. We receive regular quarterly distributions from this business, and record the income in accordance with our 49% equity interest in the company.

In our coal and aggregates royalty businesses, our lessees generally make payments to us based on the greater of a percentage of the gross sales price or a fixed royalty per ton of coal or aggregates they sell, subject to minimum monthly, quarterly or annual payments. These minimum royalties are generally recoupable over a specified period of time, which varies by lease, if sufficient royalties are generated from production in those future periods. We do not recognize these minimum royalties as revenue until the applicable recoupment period has expired or they are recouped through production. Until recognized as revenue, these minimum royalties are recorded as deferred revenue, a liability on our balance sheet.

Revenues related to our non-operated working interests in oil and gas assets are recognized on the basis of our net revenue interests in hydrocarbons produced. We also incur capital expenditures and operating expenses associated with the non-operated working interests in oil and gas assets. Oil and gas royalty revenues include production payments as well as bonus payments. Oil and gas royalty revenues are recognized on the basis of hydrocarbons sold by lessees and the corresponding revenues from those sales. Generally, the lessees make payments based on a percentage of the selling price.

Our Current Liquidity Position

As of September 30, 2014, Opco had $293.0 million in available borrowing capacity under its revolving credit facility. On October 1, 2014, Opco borrowed an additional $169.0 million thereunder to fund a portion of the purchase price of the VantaCore acquisition. Also as of September 30, 2014, NRP Oil and Gas had $18.0 million in available borrowing capacity under its revolving credit facility. In connection with the closing of the Kaiser-Francis acquisition, NRP Oil and Gas s revolving credit facility will be amended, and the borrowing base thereunder is expected to be increased to $137 million. We expect to borrow up to $120 million thereunder to fund a portion of the purchase price of that acquisition. We typically access the capital markets to refinance amounts outstanding under our revolving credit facilities as we approach the limits under those facilities, the timing of which depends on the pace and size of our acquisition program and development capital expenditures associated with our oil and gas business.

In addition to the amounts available under our revolving credit facilities, we had $78.1 million in cash as of September 30, 2014. As of the date of this report, we have sold 1,539,314 common units through our at-the-market offering (ATM) program during 2014 for approximately $24.8 million in gross proceeds, excluding our general partner s capital contribution to maintain its 2% general partner interest in us. During the first nine months of 2014, we repaid $56.2 million of principal on Opco s senior notes and utility local improvement obligation, and repaid $13.0 million under Opco s revolving credit facility. Because we intend to use cash to repay principal on Opco s notes rather than refinancing the amounts due, our current liabilities exceeded our current assets by approximately $4.5 million as of September 30, 2014.

Subsequent to the end of the third quarter, we issued approximately 2.4 million common units to fund a portion of the purchase price of the VantaCore acquisition. We also issued 8.5 million common units in a public offering of common units and sold an additional $125 million aggregate principal amount of our 9.125% senior notes due 2018 in a private offering. We intend to use the net proceeds from these offerings, which totaled $222.5 million (including our general partner s capital contribution to maintain its 2% general partner interest in us in connection with the common unit offering), to fund a portion of the purchase price of the Kaiser-Francis acquisition.

We believe that the combination of our borrowing capacity under our revolving credit facilities and our cash on hand gives us enough liquidity to meet our current financial needs. Other than $81.0 million in principal repayments due on Opco s senior notes each year for the next several years (including $24.8 million of principal payments remaining in 2014), we do not have any debt maturing until 2016. While we intend to reduce our leverage by repaying such amounts with cash from operations and issuances of equity through our ATM program, we may refinance such amounts as they come due.

Current Results/Market Outlook

Our total revenues and other income for the nine months ended September 30, 2014 were $262.5 million, which were essentially unchanged from the $263.4 million in total revenues and other income earned for the nine months ended September 30, 2013. Although our total revenues and other income were down less than 1% from the first nine months of 2013, our coal related revenues were down 17% compared to the same period. The majority of the decrease in coal-related revenues was due to lower Central Appalachian coal royalty revenues, which were down 15% from the first nine months of 2013. We continue to see the benefits of our diversification efforts, as our revenues and other income from sources other than coal represented 34% of our total revenues and other income in the first nine months of 2014, up from approximately 21% of total revenues and other income in the first nine months of 2013. During the first nine months of 2014, our investment in OCI Wyoming s trona mining and soda ash production operations contributed $28.9 million in other income, and our oil and gas revenues increased to $37.5 million, up $27.7 million as compared to the first nine months of 2013. We expect revenues and other income from non-coal-related sources as a percentage of total revenues and other income to increase as a result of the VantaCore and Kaiser-Francis acquisitions.

The coal markets have continued to be challenged during the first nine months of 2014. While the thermal coal market was starting to show signs of recovery earlier this year aided by the cold winter and higher natural gas prices, natural gas prices have declined significantly since early in the year, and thermal coal prices have continued to be depressed. We believe that thermal coal production from our properties in the low-cost Illinois Basin will continue to remain strong in spite of the weak thermal markets. We expect the markets for thermal coal from our other regions to remain weak for the remainder of 2014.

Table of Contents

We continue to have substantial exposure to metallurgical coal, from which we derived approximately 39% of our coal revenues and 32% of the related production during the first nine months of 2014. The third quarter 2014 benchmark price for metallurgical coal remains at a multi-year low, and the global metallurgical coal market continues to suffer from oversupply in addition to reduced demand from China. In response to the difficult market conditions, Alpha Natural Resources has idled three mines in West Virginia, but we expect these mines to continue to sell coal out of inventory for the remainder of 2014 and accordingly, we do not expect there to be a material adverse impact on our 2014 results as a result of these idlings. We do not anticipate metallurgical coal prices recovering in 2014, and additional reductions of production of metallurgical coal from our properties may occur in the remainder of 2014 as long as prices remain at current levels. If coal prices continue to remain depressed for an extended period of time, the lessees on some of our coal properties may close some of their mines causing some of our coal properties to be impaired.

Our trona mining and soda ash refinery investment performed in line with our expectations during the first nine months of 2014. The international market for soda ash continues to improve, as global production capacity for high-cost synthetic soda ash continues to be reduced, and OCI Wyoming s sales through ANSAC were better than expected. Domestic sales volumes, which are typically sold at higher prices than soda ash sold internationally, have remained relatively stable. The cash we receive from OCI Wyoming is in part determined by the quarterly distribution declared by OCI Resources LP. Subsequent to the end of the third quarter, OCI Resources LP announced that it would increase its quarterly distribution for the third quarter by 5% over the second quarter to $0.525 per common unit.

Natural gas and crude oil prices both declined since the second quarter. Natural gas prices have been driven down by significant U.S. onshore production growth and the resurgent strong pace of seasonal storage injection during the summer. Growth of natural gas production is anticipated to continue, which will factor into price fluctuations as seasonal injection slows in the winter. In the third quarter 2014, global oil prices have declined as compared to the second quarter 2014. Increased oil supply driven by the robust onshore U.S. development activity coupled with reducing global demand and a strong U.S. dollar are seen as the main catalysts.

Political, Legal and Regulatory Environment Affecting Our Coal Business

The political, legal and regulatory environment continues to be difficult for the coal industry. The Environmental Protection Agency (EPA) has used its authority to create significant delays in the issuance of new permits and the modification of existing permits, which has led to substantial delays and increased costs for coal operators. In addition, the electric utility industry, which is the most significant end-user of domestic coal, is subject to extensive regulation regarding the environmental impact of its power generation activities. In January 2014, EPA published proposed new source performance standards for greenhouse gas emissions from new fossil fuel-fired electric generating units. The effect of the proposed rules would be to require partial carbon capture and sequestration on any new coal-fired power plants, which may amount to their effective prohibition. In June 2014, EPA issued proposed regulations on existing fossil fuel-fired power plants (the Clean Power Plan), calling for a nationwide reduction in CO_2 emissions of 30% below 2005 levels by 2030. While the timing of implementation of these proposed rules is uncertain, we expect that EPA s proposed regulations for new power plants and the Clean Power Plan will negatively affect the viability of coal-fired power generation, which will ultimately reduce coal consumption and the production of coal from our properties. Furthermore, EPA s Mercury and Air Toxics (MATS) rule and Cross-State Air Pollution Rule (CSAPR), which have been recently upheld by U.S. federal courts, are expected to adversely affect coal-fired power plants in the nearer term. Additional recent decisions by U.S. federal courts granting EPA the power to challenge and under certain circumstances retroactively veto permits further prolongs uncertainties for companies operating with Clean Water Act fill permits and their business partners.

In addition to government action, private citizens groups have continued to be active in bringing lawsuits against operators and landowners. In 2012 and 2013, several citizen group lawsuits were filed against mine operators for allegedly violating conditions in their NPDES permits requiring compliance with West Virginia s water quality standards. Some of the lawsuits allege violations of water quality standards for selenium, whereas others allege that discharges of conductivity and sulfate are causing violations of West Virginia s narrative water quality standards, which generally prohibit adverse effects to aquatic life. The citizen suit groups seek penalties as well as injunctive relief that would limit future discharges of selenium, conductivity or sulfate. While it is too early to determine the ultimate resolution of these lawsuits, any rulings requiring operators to reduce their discharges of selenium, conductivity or sulfate could result in large treatment expenses for our lessees. In 2013, several citizen group lawsuits were filed against landowners alleging ongoing discharges of pollutants, including selenium, from valley fills located at reclaimed mountaintop removal mining sites in West Virginia. In each case, the mine on the subject property has been closed, the property has been reclaimed, and the state reclamation bond has been released. While it is too early to predict the final outcome of any of these lawsuits, any final determination that a landowner or lessee has liability for discharges from a previously reclaimed mine site would result in uncertainty as to continuing liability for completed and reclaimed coal mine operations.

Table of Contents

Recent Acquisitions

We are a growth-oriented company and have closed a number of acquisitions over the last several years. Our most recent acquisitions are briefly described below.

Kaiser-Francis. On October 5, 2014, we entered into a definitive agreement to acquire non-operated working interests in oil and gas assets located in the Bakken/Three Forks play from an affiliate of Kaiser-Francis Oil Company for $340 million, subject to customary purchase price adjustments (the Kaiser-Francis acquisition). Upon entering into the agreement, we paid a deposit of $25 million. The assets include approximately 5,700 net acres in the Sanish Field in Mountrail County, North Dakota and include an estimated average working interest of 15% in approximately 200 wells that are producing or in various stages of development in addition to the opportunity to participate in future development locations. The assets are all held by production and are operated by Whiting Petroleum Corporation. The acquisition will have an effective date of October 1, 2014 and is expected to close in November 2014, subject to the satisfaction of customary closing conditions.

VantaCore. On October 1, 2014, we completed the acquisition of VantaCore, a privately held limited partnership specializing in the construction materials industry, for $205 million in cash and common units, subject to customary post-closing purchase price adjustments. Headquartered in Philadelphia, Pennsylvania, VantaCore operates three hard rock quarries, six sand and gravel plants, two asphalt plants and a marine terminal. VantaCore s current operations are located in Pennsylvania, West Virginia, Tennessee, Kentucky and Louisiana. We internally estimate that VantaCore controlled approximately 295 million tons of aggregate reserves as of December 31, 2013.

Sundance. In December 2013, we acquired non-operated working interests in oil and gas properties in the Williston Basin of North Dakota, including properties producing from the Bakken/Three Forks play, from Sundance Energy, Inc. for $29.4 million, following post-closing purchase price adjustments. The properties, which are all held by production are located in McKenzie, Mountrail and Dunn counties and are actively being developed.

Abraxas. In August 2013, we acquired non-operated working interests in producing oil and gas properties in the Williston Basin of North Dakota and Montana, including properties producing from the Bakken/Three Forks play, from Abraxas Petroleum Corporation for $38.0 million, following post-closing purchase price adjustments.

OCI Wyoming. In January 2013, we acquired a non-controlling equity interest in OCI Wyoming, an operator of a trona ore mining operation and a soda ash refinery in the Green River Basin, Wyoming, from Anadarko Holding Company and its subsidiary, Big Island Trona Company for $292.5 million. The acquisition agreement provides for up to the net present value of $50 million in additional contingent consideration payable by us should certain performance criteria be met as defined in the purchase and sales agreement in any of 2013, 2014 or 2015. We accrued $15 million as part of the purchase consideration, of which we have paid $0.5 million in contingent consideration to Anadarko with respect to 2013.

Non-GAAP Financial Measures

Distributable Cash Flow

Under our partnership agreement, we are required to distribute all of our available cash each quarter. Because distributable cash flow is a significant liquidity metric that is an indicator of our ability to generate cash flows at a level that can sustain or support an increase in quarterly cash distributions paid to our partners, we view it as the most important measure of our success as a company. Distributable cash flow is also the quantitative standard used in the investment community with respect to publicly traded partnerships.

Our distributable cash flow represents cash flow from operations, proceeds from sale of assets, returns on direct financing lease and contractual override and distributions from unconsolidated affiliates. Although distributable cash flow is a non-GAAP financial measure, we believe it is a useful adjunct to net cash provided by operating activities under GAAP. Distributable cash flow is not a measure of financial performance under GAAP and should not be considered as an alternative to cash flows from operating, investing or financing activities. Distributable cash flow may not be calculated the same for us as for other companies.

Table of Contents

Reconciliation of Net cash provided by operating activities to Distributable cash flow

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
	(unaudited)			
Net cash provided by operating activities	$ 57,458	$ 65,866	$ 157,096	$ 189,515
Return on direct financing lease and contractual override	310	286	910	841
Distributions from unconsolidated affiliates		38,056	3,633	48,833
Proceeds from sale of assets	5	405	5	559
Distributable cash flow	$ 57,773	$ 104,613	$ 161,644	$ 239,748

EBITDA

EBITDA is a non-GAAP financial measure that we define as earnings before interest, taxes, depreciation, depletion and amortization and asset impairment, including interest, taxes, depreciation and amortization relating to OCI Wyoming. EBITDA, as used and defined by us, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with GAAP. EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. EBITDA provides no information regarding a company s capital structure, borrowings, interest costs, capital expenditures, and working capital movement or tax positions. EBITDA does not represent funds available for discretionary use because those funds may be required for debt service, capital expenditures, working capital and other commitments and obligations. We believe EBITDA is useful in evaluating our financial performance because this measure is widely used by analysts and investors for comparative purposes. EBITDA is a financial measure widely used by investors in the high-yield bond market. There are significant limitations to using EBITDA as a measure of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss, the lack of comparability of results of operations of different companies and the different methods of calculating EBITDA reported by different companies.

Reconciliation of Net income to EBITDA

	Three Months Ended September 30,		Nine Month Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
	(unaudited)			

Net income	$ 36,173	$ 36,126	$ 100,185	$ 125,097
Add depreciation, depletion and amortization	18,621	17,852	49,618	50,025
Add asset impairments			5,624	734
Add interest expense, gross	18,862	15,516	57,759	44,619
Add depreciation and amortization, interest and taxes relating to OCI Wyoming	4,628	3,366	13,996	9,068
EBITDA	$ 78,284	$ 72,860	$ 227,182	$ 229,543

EBITDA presented in the table above differs from the EBITDDA definitions contained in Opco s debt agreement covenants. In calculating EBITDDA for purposes of Opco s debt covenant compliance, pro forma effect may be given to acquisitions and dispositions made during the relevant period. See Liquidity and Capital Resources Contractual Obligations and Commercial Commitments Opco Debt for a description of Opco s debt agreements.

Results of Operations

As disclosed in Note 2. Significant Accounting Policies Update, amounts relating to coal royalties, processing fees, transportation fees, minimums recognized as revenue, override royalties and other for the three and nine months ended September 30, 2013 have been reclassified into a single line item Coal related revenues on the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014. Similarly, amounts relating to 2013 aggregate royalties, processing fees, minimums recognized as revenue, override royalties and other have been reclassified into a single line item Aggregate related revenues on the Consolidated Statements of Comprehensive Income. Accordingly, we have revised our comparative discussions below to make corresponding changes.

Table of Contents

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Coal Related Revenues

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Increase (Decrease)	Percentage Change
	(In thousands, except percent and per ton data)			
	(Unaudited)			
Regional Statistics				
Coal royalty production (tons)				
Appalachia				
Northern	2,060	2,779	(719)	(26)%
Central	5,432	5,116	316	6%
Southern	1,017	921	96	10%
Total Appalachia	8,509	8,816	(307)	(3)%
Illinois Basin	3,526	3,635	(109)	(3)%
Northern Powder River Basin	1,054	735	319	43%
Gulf Coast	281	290	(9)	(3)%
Total	13,370	13,476	(106)	(1)%
Average coal royalty revenue per ton				
Appalachia				
Northern	$ 0.90	$ 1.04	$ (0.14)	(13)%
Central	4.69	4.94	(0.25)	(5)%
Southern	5.04	6.05	(1.01)	(17)%
Total Appalachia	3.81	3.83	(0.02)	(1)%
Illinois Basin	4.08	4.23	(0.15)	(4)%
Northern Powder River Basin	2.91	3.10	(0.19)	(6)%
Gulf Coast	3.40			