

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K/A

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QR Energy, LP

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SIC: **1311** Crude petroleum & natural gas

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

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): January 9, 2013 (December 4, 2012)

QR Energy, LP

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

001-35010
(Commission
File Number)

90-0613069
(IRS Employer
Identification No.)

5 Houston Center
1401 McKinney Street, Suite 2400
Houston, Texas 77010

(Address of principal executive office) (Zip Code)

(713) 452-2200

(Registrants' telephone number, including area code)

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

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

Item 9.01. Financial Statements and Exhibits.

On January 3, 2013, QR Energy, LP (the “Partnership”) filed a Current Report on Form 8-K (the “Initial December 2012 Transferred Properties 8-K”) in connection with its completion of an acquisition on December 28, 2012 of certain oil and natural gas properties and a processing plant located in the Florida panhandle (the “December 2012 Transferred Properties”) pursuant to a Purchase and Sale Agreement by and among the Partnership and affiliate sellers in exchange for approximately \$30 million in cash and the assumption of \$115 million of long-term debt, subject to customary purchase price adjustments.

On December 6, 2012, the Partnership filed a Current Report on Form 8-K (the “Initial East Texas Oil Field 8-K”) in connection with its completion of an acquisition on December 4, 2012 from a private seller (the “Seller”) of certain oil properties (the “East Texas Oil Field Properties”) located in the Ark-La-Tex area pursuant to a Purchase and Sale Agreement by and among the Partnership and the Seller (the “East Texas Oil Field Acquisition”) in exchange for approximately \$215 million in cash, subject to customary purchase price adjustments.

The Initial East Texas Oil Field 8-K and the Initial December 2012 Transferred Properties 8-K stated that the required financial statements and pro forma financial information related to the acquisitions of the East Texas Oil Field Properties and the December 2012 Transferred Properties would be filed by an amendment to the Initial East Texas Oil Field 8-K and the Initial December 2012 Transferred Properties 8-K. This amendment on Form 8-K/A amends and supplements the Initial East Texas Oil Field 8-K and Initial December 2012 Transferred Properties 8-K to include financial statements and pro forma financial information as described in Items 9.01(a) and 9.01(b). No other amendments are being made to the Initial East Texas Oil Field 8-K nor the Initial December 2012 Transferred Properties 8-K.

(a) Financial Statements of Businesses Acquired.

The unaudited statements of revenues and direct operating expenses for the December 2012 Transferred Properties for the nine months ended September 30, 2012 and 2011, and the audited statement of revenues and direct operating expenses for the December 2012 Transferred Properties for the year ended December 31, 2011, and the related notes thereto, are attached hereto as Exhibit 99.1.

The unaudited statements of revenues and direct operating expenses for the East Texas Oil Field Properties for the nine months ended September 30, 2012 and 2011, and the the audited statement of revenues and direct operating expenses for the East Texas Oil Field Properties for the year ended December 31, 2011, and the related notes thereto, are attached hereto as Exhibit 99.2.

(b) Pro Forma Financial Information.

The unaudited pro forma combined financial information of the Partnership as of September 30, 2012 and for the nine months ended September 30, 2012 and the year ended December 31, 2011 and the related notes thereto, showing the pro forma effects of the acquisition of the December 2012 Transferred Properties, East Texas Oil Field Properties and certain other transactions are attached hereto as Exhibit 99.4.

(d)Exhibits.

| <u>Exhibit No.</u> | <u>Exhibit Description</u> |
|--------------------|--|
| 23.1 | Consent of PricewaterhouseCoopers, LLP. |
| 23.2 | Consent of BDO USA, LLP. |
| 23.3 | Consent of KPMG LLP. |
| 99.1 | Unaudited statements of revenues and direct operating expenses for the December 2012 Transferred Properties for the nine months ended September 30, 2012 and 2011, and the audited statement of revenues and direct operating expenses for the year ended December 31, 2011, and the related notes thereto. |
| 99.2 | Unaudited statement of revenues and direct operating expenses for the East Texas Oil Field Properties for the nine months ended September 30, 2012 and 2011, and the audited statement of revenues and direct operating expenses for the year ended December 31, 2011, and the related notes thereto. |
| 99.3 | Unaudited statement of revenue and direct operating expense for the Prize Properties for the three months ended March 31, 2011 and 2012, and the audited statement of revenue and direct operating expenses for the year ended December 31, 2011, and the related notes thereto (Incorporated herein by reference to Exhibit 99.1 of the Partnership's Current Report on Form 8-K filed on June 29, 2012). |
| 99.4 | Unaudited pro forma combined financial information of the Partnership as of September 30, 2012 and for the nine months ended September 30, 2012 and the year ended December 31, 2011 and the related notes thereto, giving effect to the acquisition of the December 2012 Transferred Properties, the East Texas Oil Field Properties and the certain other transactions. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

QR Energy, LP

By: QRE GP, LLC, its general partner

By: /s/ Gregory S. Roden

Name: Gregory S. Roden

Title: Vice President and General Counsel

Dated: January 9, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-171333) and on Form S-3 (No. 333-181820) of QR Energy, LP of our report dated January 9, 2013 relating to the Statement of Revenues and Direct Operating Expenses of the December 2012 Transferred Properties acquired by QR Energy, LP from Quantum Resources A1, LP, QAB Carried WI, LP, QAC Carried WI, LP and Black Diamond Resources, LLC, which appears in this Current Report on Form 8-K/A of QR Energy, LP dated January 9, 2013.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
January 9, 2013

Consent of Independent Auditors

QR Energy, LP
Houston, TX

We hereby consent to the incorporation by reference in the Registration Statement of QR Energy, LP (the "Partnership") on Form S-8 (No. 333-171333) and on Form S-3 (No. 333-181820), of our report dated January 9, 2013, relating to the statement of revenues and direct operating expenses of the East Texas Oil Field Properties for the year ended December 31, 2011, which appears in this Form 8-K/A.

/s/ BDO USA, LLP
Houston, TX
January 9, 2013

Consent of Independent Auditors

The Board of Directors
QR Energy, LP:

We consent to the incorporation by reference in the registration statement (No. 333-171333) on Form S-8 and the registration statement (No. 333-181820) on Form S-3 of QR Energy, LP, of our report dated June 29, 2012, with respect to the Statement of Revenues and Direct Operating Expenses – Acquired Prize Properties for the year ended December 31, 2011, which report is incorporated by reference in the Form 8-K/A of QR Energy, LP dated January 9, 2013.

(Signed) KPMG LLP

Houston, TX
January 9, 2013

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
QR Energy, LP:

In our opinion, the accompanying statement of revenues and direct operating expenses (the “financial statement”) presents fairly, in all material respects, the revenues and direct operating expenses of certain oil and gas properties of Quantum Resources A1, LP, QAB Carried WI, LP, QAC Carried WI, LP and Black Diamond Resources, LLC (the “December 2012 Transferred Properties”) for the year ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America, using the basis of presentation described in Note 1. This financial statement is the responsibility of QR Energy, LP management. Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this financial statement in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial statement reflects the revenues and direct operating expenses of the December 2012 Transferred Properties using the basis of presentation described in Note 1 and are not intended to be a complete presentation of the financial position, results of operations, or cash flows of the December 2012 Transferred Properties.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
January 9, 2013

DECEMBER 2012 TRANSFERRED PROPERTIES
STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES
(In thousands)

| | Nine Months Ended September 30, 2012 | Nine Months Ended September 30, 2011 | Year Ended December 31, 2011 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | |
| Revenues | \$ 81,623 | \$ 71,894 | \$ 101,036 |
| Direct operating expenses | 30,611 | 33,436 | 44,170 |
| Excess of revenues over direct operating expenses | <u>\$ 51,012</u> | <u>\$ 38,458</u> | <u>\$ 56,866</u> |

The accompanying notes are an integral part of the Statements of Revenues and Direct Operating Expenses.

December 2012 Transferred Properties
Notes to Statements of Revenues and Direct Operating Expenses

1. Properties and Basis of Presentation

The accompanying statements present the revenues and direct operating expenses of working interests in oil and natural gas producing properties acquired by QRE Operating, LLC, a wholly owned subsidiary of QR Energy, LP (“QR Energy” or the “Partnership”) on December 28, 2012 from affiliates under common control, in exchange for approximately \$30 million in cash and the assumption of \$115 million in long term debt, subject to customary purchase price adjustments. Specifically, the acquisition consisted of oil and natural gas properties and a processing plant in the Jay Field located in the Florida panhandle. These oil and natural gas properties and the processing plant are referred to collectively as the “December 2012 Transferred Properties,” and the acquisition is referred to as the “December 2012 Transaction.” The affiliates under common control, from which the Partnership acquired the December 2012 Transferred Properties include Quantum Resources A1, LP, QAB Carried WI, LP, QAC Carried WI, LP and Black Diamond Resources, LLC (collectively the “Affiliate Sellers”).

The accompanying statements of revenues and direct operating expenses are presented on an accrual basis of accounting and were derived from the December 2012 Transferred Properties historical financial records. Revenues and direct operating expenses relate to the Partnership’s acquired net revenue and working interests in the December 2012 Transferred Properties. Oil and natural gas liquids revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is reasonably assured. Revenues are reported net of overriding and other royalties due to third parties. Direct operating expenses include lease and well repairs, production taxes, gathering and transportation, maintenance, utilities, payroll and other direct operating expenses.

During the periods presented, the December 2012 Transferred Properties were not accounted for as a separate entity or division of the Affiliate Sellers and are not indicative of the financial condition or results of operations of the December 2012 Transferred Properties going forward. Certain costs such as depreciation, depletion and amortization, accretion of asset retirement obligations, general and administrative expenses, interest expense and corporate income taxes were not allocated to the individual properties, and therefore not included as direct operating expenses.

Historical financial statements reflecting financial position, results of operations and cash flows required by accounting principles generally accepted in the United States of America are not presented as such information is not available on an individual property basis, nor is it practicable to obtain such information in these circumstances. Accordingly, the statement of revenues and direct operating expenses is presented in lieu of the financial statements required under Rule 3-01 and Rule 3-02 of the Securities and Exchange Commission’s (“SEC”) Regulation S-X. The results set forth in these statements of revenues and direct operating expenses may not be representative of future operations.

2. Unaudited Interim Financial Information

The accompanying statements of revenues and direct operating expenses for the nine months ended September 30, 2012 and 2011 are unaudited. The unaudited interim statements of revenues and direct operating expenses have been derived from the Affiliate Sellers’ historical financial records and prepared on the same basis as the annual statement of revenues and direct operating expenses. In the opinion of management, such unaudited interim statements reflect all adjustments necessary for a fair presentation of the excess of revenues over direct operating expenses of the December 2012 Transferred Properties for the nine months ended September 30, 2012 and 2011.

3. Subsequent Events

In accordance with Accounting Standards Codification (“ASC”) 855, we have evaluated subsequent events through January 9, 2013, the date of the accompanying statements of revenue and direct operating expenses were

available to be issued. There were no material subsequent events that required recognition or additional disclosure in the accompanying statements of revenue and direct operating expenses.

Supplemental Oil and Gas Reserve Information (Unaudited)

Estimated Quantities of Proved Oil and Natural Gas Reserves

Proved reserves are estimated quantities of oil and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions (i.e., prices and costs) existing at the time the estimate was made. Proved developed reserves are proved reserves that can be expected to be recovered through existing wells and equipment in place and under operating methods being utilized at the time the estimates were made.

The following table summarizes the estimated quantities of oil and natural gas reserves of the December 2012 Transferred Properties as of December 31, 2011 estimated by the Partnership's petroleum engineers in accordance with the Financial Accounting Standards Board ("FASB") and the SEC authoritative guidance, and the related summary of changes in estimated quantities of net remaining proved reserves during the year.

| | Oil (MBbl) | NGL (MBbl) |
|---------------------------------|-----------------------|-----------------------|
| Balance, December 31, 2010 | 3,878 | 477 |
| Extensions | 728 | 101 |
| Revisions of previous estimates | 1,574 | 318 |
| Production | (828) | (113) |
| Balance, December 31, 2011 | <u>5,352</u> | <u>783</u> |
| Proved developed reserves: | | |
| December 31, 2010 | 3,528 | 411 |
| December 31, 2011 | 5,191 | 760 |

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following tables set forth the computation of the standardized measure of discounted future net cash flows (the "Standardized Measure") relating to proved reserves and the changes in such cash flows of the December 2012 Transferred Properties in accordance with the FASB and SEC authoritative guidance related to disclosures about oil and gas producing activities. The Standardized Measure is the estimated net future cash inflows from proved reserves less estimated future production and development costs, estimated plugging and abandonment costs, and a discount factor. Production costs do not include taxes, as profits or losses are reported to the taxing authorities by the individual partners. Production costs also do not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs. Future cash inflows represent expected revenues from production of period-end quantities of proved reserves based on the 12-month average oil and gas index, calculated as the unweighted arithmetic average of the first day of the month price for each month during the year, as prescribed by ASC 932. Estimated future production costs related to period-end reserves are based on period-end costs. Such costs include, but are not limited to, production taxes and direct operating costs. Inflation and other anticipatory costs are not considered until the actual cost change takes effect. In accordance with the FASB's authoritative guidance, a discount rate of 10% is applied to the annual future net cash flows.

The average prices (adjusted for basis and quality differentials) related to proved reserves at December 31, 2011 for natural gas liquids was \$57.71 per Bbl and for oil was \$111.64 per Bbl. Future cash inflows were reduced by estimated future development, and production costs based on year-end costs resulting in net cash flow before tax.

The Standardized Measure is not intended to be representative of the fair market value of the proved reserves. The calculations of revenues and costs do not necessarily represent the amounts to be received or expended. Accordingly, the estimates of future net cash flows from proved reserves and the present value thereof may not be materially correct when judged against actual subsequent results. Further, since prices and costs do not remain static,

and no price or cost changes have been considered, and future production and development costs are estimates to be incurred in developing and producing the estimated proved oil and gas reserves, the results are not necessarily indicative of the fair market value of estimated proved reserves, and the results may not be comparable to estimates disclosed by other oil and gas producers.

| (In thousands) | Year Ended December 31, 2011 |
|--|---|
| Future cash inflows | \$ 642,646 |
| Future production and development costs | (490,553) |
| Future net cash flows | 152,093 |
| 10% annual discount for estimated timing of cash flows | (12,971) |
| Standardized measure of discounted future net cash flows | <u>\$ 139,122</u> |

Changes in the Standardized Measure of the December 2012 Transferred Properties are as follows:

| (In thousands) | Year Ended December 31, 2011 |
|--|---|
| Beginning of period | \$ 53,444 |
| Extensions | 16,924 |
| Revisions of previous estimates | 47,775 |
| Changes in future development costs, net | (9,083) |
| Development cost incurred during the year that reduce future development costs | 2,396 |
| Net change in prices | 69,112 |
| Sales, net of production costs | (54,506) |
| Changes in timing and other | 7,716 |
| Accretion of discount | 5,344 |
| End of period | <u>\$ 139,122</u> |

Report of Independent Auditors

Board of Directors and Partners
QR Energy, LP
Houston, Texas

We have audited the accompanying statement of revenues and direct operating expenses of the working interests in oil and natural gas producing properties acquired by QRE Operating, LLC, a wholly owned subsidiary of QR Energy, LP (the "Partnership") on December 4, 2012 from a private seller (the "East Texas Oil Field Properties") for the year ended December 31, 2011. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenues and direct operating expenses is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over the financial reporting associated with the East Texas Oil Field Properties. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of revenues and direct operating expenses, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of revenues and direct operating expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission as described in Note 1 and is not intended to be a complete presentation of the results of operations of the East Texas Oil Field Properties.

In our opinion, the statement of revenues and direct operating expenses referred to above presents fairly, in all material respects, the revenues and direct operating expenses of the East Texas Oil Field Properties for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO USA, LLP
Houston, Texas
January 9, 2013

EAST TEXAS OIL FIELD PROPERTIES
STATEMENTS OF REVENUES AND DIRECT OPERATING EXPENSES
(In thousands)

| | <u>Nine Months Ended</u> <u>September 30, 2012</u> | <u>Nine Months Ended</u> <u>September 30, 2011</u> | <u>Year Ended</u> <u>December 31, 2011</u> |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | |
| Revenues | \$ 36,411 | \$ 35,158 | \$ 47,846 |
| Direct operating expenses | 11,529 | 11,104 | 14,514 |
| Excess of revenues over direct operating expenses | <u>\$ 24,882</u> | <u>\$ 24,054</u> | <u>\$ 33,332</u> |

The accompanying notes are an integral part of the Statements of Revenues and Direct Operating Expenses.

East Texas Oil Field Properties
Notes to the Statements of Revenues and Direct Operating Expenses

1. Properties and Basis of Presentation

The accompanying statements present the revenues and direct operating expenses of working interests in oil and natural gas producing properties acquired by QRE Operating, LLC, a wholly owned subsidiary of QR Energy, LP (“QR Energy” or the “Partnership”) on December 4, 2012 from a private seller (the “Seller”), for approximately \$215 million in cash, subject to customary purchase price adjustments. The properties are referred to herein as the “East Texas Oil Field Properties.”

The accompanying statements of revenues and direct operating expenses are presented on an accrual basis of accounting and were derived from the Seller’s historical financial records. Revenues and direct operating expenses relate to the Partnership’s acquired net revenue and working interests in the East Texas Oil Field Properties. Oil, and natural gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Revenues are reported net of overriding and other royalties due to third parties. Direct operating expenses include lease and well repairs, production taxes, gathering and transportation, maintenance, utilities, payroll and other direct operating expenses.

During the periods presented, the East Texas Oil Field Properties were not accounted for as a separate entity or division of the Seller and the accompanying statements of revenue and direct operating expenses are not indicative of the results of operations of the East Texas Oil Field Properties going forward. Certain costs such as depreciation, depletion and amortization, accretion of asset retirement obligations, general and administrative expenses, interest expense and corporate income taxes were not allocated to the individual properties, and therefore not included as direct operating expenses.

Historical financial statements reflecting financial position, results of operations and cash flows required by accounting principles generally accepted in the United States of America are not presented as such information is not available on an individual property basis, nor is it practicable to obtain such information in these circumstances. Accordingly, the statements of revenues and direct operating expenses are presented in lieu of the financial statements required under Rule 3-01 and Rule 3-02 of the Securities and Exchange Commission’s (“SEC”) Regulation S-X.

2. Unaudited Interim Financial Information

The accompanying statements of revenues and direct operating expenses for the nine months ended September 30, 2012 and 2011 are unaudited. The unaudited interim statements of revenues and direct operating expenses have been derived from the Seller’s historical financial records and prepared on the same basis as the annual statement of revenues and direct operating expenses. In the opinion of management, such unaudited interim statements reflect all adjustments necessary for a fair presentation of the excess of revenues over direct operating expenses of the East Texas Oil Field Properties for the nine months ended September 30, 2012 and 2011.

3. Subsequent Events

In accordance with Accounting Standards Codification (“ASC”) 855, management has evaluated subsequent events through January 9, 2013, the date the accompanying statements of revenues and direct operating expenses were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the accompanying statements of revenues and direct operating expenses.

Supplemental Oil and Gas Reserve Information (Unaudited)

Estimated Quantities of Proved Oil and Natural Gas Reserves

Proved reserves are estimated quantities of oil and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions (i.e., prices and costs) existing at the time the estimate was made. Proved developed reserves are proved reserves that can be expected to be recovered through existing wells and equipment in place and under operating methods being utilized at the time the estimates were made.

The following table summarizes the estimated quantities of oil and natural gas reserves of the East Texas Oil Field Properties as of December 31, 2011, estimated by the Partnership's petroleum engineers in accordance with the Financial Accounting Standards Board ("FASB") and the SEC authoritative guidance, and the related summary of changes in estimated quantities of net remaining proved reserves during the year.

| | <u>Oil</u> <u>(MBbl)</u> | <u>Gas</u> <u>(MMcf)</u> |
|---------------------------------|-----------------------------|-----------------------------|
| Balance as of December 31, 2010 | 9,936 | 6,912 |
| Revision of previous estimates | 271 | 252 |
| Production | <u>(494)</u> | <u>(313)</u> |
| Balance as of December 31, 2011 | <u>9,713</u> | <u>6,851</u> |
| Proved developed reserves: | | |
| December 31, 2010 | <u>9,803</u> | <u>6,872</u> |
| December 31, 2011 | <u>9,579</u> | <u>6,811</u> |

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves

The following tables set forth the computation of the standardized measure of discounted future net cash flows (the "Standardized Measure") relating to proved reserves and the changes in such cash flows of the East Texas Oil Field Properties in accordance with the FASB and SEC authoritative guidance related to disclosures about oil and gas producing activities. The Standardized Measure is the estimated net future cash inflows from proved reserves less estimated future production and development costs, estimated plugging and abandonment costs, and a discount factor. Production costs do not include federal income taxes as profits or losses are reported to the taxing authorities by the individual partners. Production costs also do not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs. Future cash inflows represent expected revenues from production of period-end quantities of proved reserves based on the 12-month average oil and gas index, calculated as the unweighted arithmetic average of the first day of the month price for each month during the year, as prescribed by ASC 932. Estimated future production costs related to period-end reserves are based on period-end costs. Such costs include, but are not limited to, production taxes and direct operating costs. Inflation and other anticipatory costs are not considered until the actual cost change takes effect. In accordance with the FASB's authoritative guidance, a discount rate of 10% is applied to the annual future net cash flows.

The average prices (adjusted for basis and quality differentials) related to proved reserves at December 31, 2011 were \$3.57 per Mcf of natural gas and \$101.69 per Bbl of oil. Future cash inflows were reduced by estimated future development and production costs based on year-end costs resulting in net cash flow before tax.

The Standardized Measure is not intended to be representative of the fair market value of the proved reserves. The calculations of revenues and costs do not necessarily represent the amounts to be received or expended. Accordingly, the estimates of future net cash flows from proved reserves and the present value thereof may not be materially correct when judged against actual subsequent results. Further, since prices and costs do not remain static, and no price or cost changes have been considered, and future production and development costs are estimates to be incurred in developing and producing the estimated proved oil and gas reserves, the results are not necessarily indicative of the fair market value of estimated proved reserves, and the results may not be comparable to estimates disclosed by other oil and gas producers.



| (In thousands) | As of December 31, 2011 |
|--|--|
| Future cash inflows | \$ 1,012,095 |
| Future production and development costs | (417,361) |
| Future net cash flows | 594,734 |
| 10% annual discount for estimated timing of cash flows | (340,423) |
| Standardized measure of discounted future net cash flows | <u>\$ 254,311</u> |

Changes in the Standardized Measure of the East Texas Oil Field Properties are as follows:

| (In thousands) | Year Ended December 31, 2011 |
|---------------------------------|---|
| Beginning of period | \$ 203,110 |
| Revisions of previous estimates | 7,320 |
| Net change in prices | 64,125 |
| Sales, net of production costs | (33,332) |
| Changes in timing and other | (7,223) |
| Accretion of discount | 20,311 |
| End of period | <u>\$ 254,311</u> |

QR ENERGY, LP
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

| | |
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Introduction

The following unaudited pro forma financial statements of QR Energy, LP and subsidiaries (“QR Energy,” “QRE” or the “Partnership”) reflect the unaudited and audited historical results of QR Energy on a pro forma basis to give effect to: (i) the acquisition on December 28, 2012 by the Partnership of oil and natural gas properties and a processing plant in the Jay Field located in the Florida panhandle (the “December 2012 Transferred Properties”) from affiliate sellers for approximately \$30 million in cash and the assumption of \$115 million in debt, subject to customary purchase price adjustments, (the “December 2012 Transaction”) and (ii) the acquisition on December 4, 2012 by the Partnership of predominantly oil properties located in the Ark-La-Tex area and an equity method interest in a saltwater disposal company (the “East Texas Oil Field Properties”) from a private seller for \$215 million in cash, subject to customary purchase price adjustments (the “East Texas Oil Field Acquisition”).

The unaudited pro forma financial statements of QRE also contemplate the following previously completed transactions: (i) the acquisition on April 20, 2012 by the Partnership of predominantly low decline, long life oil properties, primarily located in the Ark-La-Tex area (the “Prize Properties”) from Prize Petroleum LLC and Prize Pipeline, LLC (collectively, “Prize”) for approximately \$225 million in cash after customary purchase price adjustments (the “Prize Acquisition”), and (ii) the partial financing of the Prize Acquisition with the April 17, 2012 issuance of 8,827,263 of common units (including 2,625,000 common units pursuant to the exercise in full of the option by the underwriters) to the public for \$19.18 per unit, resulting in approximately \$162 million in net proceeds (the “April 2012 Offering”).

The affiliates from which the Partnership acquired the December 2012 Transferred Properties include Quantum Resources A1, LP, QAB Carried WI, LP, QAC Carried WI, LP and Black Diamond Resources, LLC (collectively the “Affiliate Sellers”). QR Energy and the Affiliate Sellers of the December 2012 Transferred Properties are entities under common control. As a result, the December 2012 Transaction will be accounted for as a transaction between entities under common control whereby the assets and liabilities transferred will be recorded by QR Energy at the historical book value of the Affiliate Sellers without any adjustment to current fair values. The East Texas Oil Field Acquisition will be accounted for as a business combination for which the accounting is dependent upon certain valuations and other studies that are not yet complete. Accordingly, the pro forma adjustments are preliminary and subject to revision based on final determination of fair value.

Pro Forma Financial Statements

The unaudited pro forma balance sheet of QR Energy as of September 30, 2012 is based on the unaudited historical consolidated balance sheet of QR Energy and includes pro forma adjustments to give effect to the December 2012 Transaction and the East Texas Oil Field Acquisition as if they had occurred on September 30, 2012. Since the December 2012 Transaction represents a transaction between entities under common control, the historic impact of the acquired assets and liabilities are carried forward from the date of common control.

The unaudited pro forma statements of operations of QR Energy for the nine months ended September 30, 2012 are based on the unaudited historical consolidated statements of operations of QR Energy, and the unaudited statements of revenues and direct operating expenses attributable to the December 2012 Transferred Properties, the East Texas Oil Field Properties, and the Prize Properties, giving effect to the December 2012 Transaction as if they had occurred on the date of common control, and the East Texas Oil Field Acquisition, the Prize Acquisition and the April 2012 Offering as if they had occurred on January 1, 2011. The unaudited pro forma statements of operations of QR Energy for the year ended December 31, 2011 are based on the audited historical consolidated statement of operations of QR Energy and audited statements of revenues and direct operating expenses attributable to the December 2012 Transferred Properties, the East Texas Oil Field Properties, and the Prize Properties, giving effect to the December 2012 Transaction as if it had occurred on the date of common control, and the East Texas Oil Field Acquisition, the Prize Acquisition and the April 2012 Offering as if they had occurred on January 1, 2011.

The unaudited pro forma financial statements have been prepared on the basis that QR Energy is a partnership for federal income tax purposes. The unaudited pro forma financial statements should be read in conjunction with the notes accompanying these unaudited pro forma financial statements and with the unaudited and audited historical financial statements related to QR Energy, the December 2012 Transferred Properties and East Texas Oil Field Properties, included or incorporated as exhibits in this Current Report.

The pro forma adjustments to the unaudited and audited historical financial statements are based upon currently available information and certain estimates and assumptions. The actual effect of the transactions discussed in the accompanying notes ultimately may differ from the unaudited pro forma adjustments included herein. However, management believes that the assumptions utilized to prepare the pro forma adjustments provide a reasonable basis for presenting the significant effects of the transactions as currently contemplated and the unaudited pro forma adjustments are factually supportable, give appropriate effect to the expected impact of events that are directly attributable to the transactions and reflect those items expected to have a continuing impact on QR Energy.

QR ENERGY, LP
PRO FORMA BALANCE SHEET
SEPTEMBER 30, 2012
(UNAUDITED)
(In thousands)

| | December 2012 | | East Texas Transferred Properties | |
|--|-------------------------------------|----------------------------------|--|------------------------------------|
| | QR Energy, LP Historical | Pro Forma Adjustments | Pro Forma Adjustments | QR Energy, LP Pro Forma |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | \$ 25,144 | \$ 143,555 (a) | \$ 214,306 (b) | \$ 25,144 |
| | | (143,555) (c) | (214,306) (c) | |
| Accounts receivable | 35,302 | - | - | 35,302 |
| Due from affiliates | 9,319 | - | - | 9,319 |
| Derivative instruments | 42,482 | - | - | 42,482 |
| Prepaid and other current assets | 659 | - | - | 659 |
| Total current assets | <u>112,906</u> | <u>-</u> | <u>-</u> | <u>112,906</u> |
| Noncurrent assets: | | | | |
| Oil and gas properties, using the full cost method of accounting | | | | |
| Evaluated | 1,270,689 | 121,178 (c) | 224,689 (c) | 1,616,556 |
| Unevaluated | 9,000 | - | - | 9,000 |
| Gross oil and natural gas properties | 1,279,689 | 121,178 | 224,689 | 1,625,556 |
| Gas processing equipment | 4,110 | - | - | 4,110 |
| Less accumulated depreciation, depletion, and amortization | (141,912) | (31,610) (c) | - | (173,522) |
| Total property and equipment, net | 1,141,887 | 89,568 | 224,689 | 1,456,144 |
| Equity investment | - | - | 1,900 (c) | 1,900 |
| Derivative instruments | 81,450 | 5,027 (c) | - | 86,477 |
| Other assets | 11,408 | 10,732 (c) | - | 22,140 |
| Total noncurrent assets | 1,234,745 | 105,327 | 226,589 | 1,566,661 |
| Total assets | <u>\$ 1,347,651</u> | <u>\$ 105,327</u> | <u>\$ 226,589</u> | <u>\$ 1,679,567</u> |
| LIABILITIES AND PARTNERS' CAPITAL | | | | |
| Current liabilities: | | | | |
| Current portion of asset retirement obligations | \$ 845 | \$ - | \$ - | \$ 845 |
| Derivative instruments | 5,176 | 4,960 (c) | - | 10,136 |
| Accrued and other liabilities | 60,182 | - | - | 60,182 |
| Total current liabilities | <u>66,203</u> | <u>4,960</u> | <u>-</u> | <u>71,163</u> |
| Noncurrent liabilities: | | | | |
| Long-term debt | 620,946 | 143,555 (a) | 214,306 (b) | 978,807 |
| Derivative instruments | 14,156 | 1,400 (c) | - | 15,556 |
| Asset retirement obligations | 73,507 | 27,954 (c) | 11,210 (c) | 112,671 |
| Other liabilities | 6,755 | - | 1,073 (c) | 7,828 |
| Deferred taxes | 102 | - | - | 102 |
| Total noncurrent liabilities | <u>715,466</u> | <u>172,909</u> | <u>226,589</u> | <u>1,114,964</u> |
| Commitments and contingencies | | | | |
| Partners' capital: | | | | |
| Class C convertible preferred unitholders | 369,278 | - | - | 369,278 |
| General partner | 614 | (68) (d) | - | 546 |
| Public common unitholders | 258,578 | (60,857) (d) | - | 197,721 |
| Subordinated unitholders | (62,488) | (11,617) (d) | - | (74,105) |
| Predecessor's capital | - | (72,542) (c) | - | - |

| | | | | |
|---|---------------------|-------------------|-------------------|---------------------|
| | | 72,542 (d) | | |
| Total partners' capital | 565,982 | (72,542) | - | 493,440 |
| Total liabilities and partners' capital | <u>\$ 1,347,651</u> | <u>\$ 105,327</u> | <u>\$ 226,589</u> | <u>\$ 1,679,567</u> |

See accompanying notes to the unaudited pro forma financial statements.

QR ENERGY, LP
PRO FORMA STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(UNAUDITED)
(In thousands, except per unit amounts)

| | December 2012 | | December 2012 | | East Texas | | Prize | | QR Energy, LP Pro Forma |
|--|-----------------------------|---------------------------|---------------|---------------|-------------|---------------|------------|-------------|----------------------------|
| | QR Energy, LP Historical | Transferred Properties | Transferred | | Oil Field | | Properties | | |
| | | | Pro Forma | Oil Field | Pro Forma | Prize | Pro Forma | Adjustments | |
| Revenues: | | | | | | | | | |
| Oil and natural gas sales | \$ 191,722 | \$ 81,623 (e) | \$ - | \$ 36,411 (e) | \$ - | \$ 12,116 (e) | \$ - | \$ - | \$ 321,872 |
| Processing and other | 1,243 | - | - | - | - | - | - | - | 1,243 |
| Total revenues | 192,965 | 81,623 | - | 36,411 | - | 12,116 | - | - | 323,115 |
| Operating Expenses: | | | | | | | | | |
| Production expenses | 73,448 | 30,611 (e) | - | 11,529 (e) | - | 4,401 (e) | - | - | 119,989 |
| Depreciation, depletion and amortization | 61,428 | - | 15,332 (f) | - | 7,866 (f) | - | 2,480 (f) | - | 87,106 |
| Accretion of asset retirement obligations | 2,645 | - | 1,464 (g) | - | 178 (g) | - | 60 (g) | - | 4,347 |
| General and administrative | 26,345 | - | 2,706 (h) | - | 1,570 (h) | - | 208 (h) | - | 30,829 |
| Acquisition and transaction costs | 1,286 | - | - | - | - | - | (1,004)(h) | - | 282 |
| Total operating expenses | 165,152 | 30,611 | 19,502 | 11,529 | 9,614 | 4,401 | 1,744 | - | 242,553 |
| Operating income | 27,813 | 51,012 | (19,502) | 24,882 | (9,614) | 7,715 | (1,744) | - | 80,562 |
| Other income (expense): | | | | | | | | | |
| Realized gains on commodity derivative contracts | 35,668 | - | - | - | - | - | - | - | 35,668 |
| Unrealized gains on commodity derivative contracts | 12,328 | - | 4,005 (i) | - | - | - | - | - | 16,333 |
| Interest expense, net | (28,398) | - | (3,133)(j) | - | (4,356)(j) | - | (401)(j) | - | (36,288) |
| Total other income (expense), net | 19,598 | - | 872 | - | (4,356) | - | (401) | - | 15,713 |
| Loss before income taxes | 47,411 | 51,012 | (18,630) | 24,882 | (13,970) | 7,715 | (2,145) | - | 96,275 |
| Income tax benefit, net | (528) | - | - | - | - | - | - | - | (528) |
| Net income (loss) | \$ 46,883 | \$ 51,012 | \$ (18,630) | \$ 24,882 | \$ (13,970) | \$ 7,715 | \$ (2,145) | \$ - | \$ 95,747 |
| Net income per limited partner unit: | | | | | | | | | |
| Common unitholders' (basic) | \$ 0.49 | | | | | | | | \$ 1.51 |
| Common unitholders' (diluted) | \$ 0.49 | | | | | | | | \$ 1.45 |
| Subordinated unitholders' (basic) | \$ 0.33 | | | | | | | | \$ 1.50 |
| Subordinated unitholders' (diluted) | \$ 0.33 | | | | | | | | \$ 1.45 |
| Weighted average number of limited partner units outstanding: | | | | | | | | | |
| Common units (basic) | 34,347 | | | | | | | | 37,794 |
| Common units (diluted) | 34,347 | | | | | | | | 54,460 |
| Subordinated units (basic and diluted) | 7,146 | | | | | | | | 7,146 |

See accompanying notes to the unaudited pro forma financial statements.

QR ENERGY, LP
PRO FORMA STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)
(In thousands, except per unit amounts)

| | December 2012 | | December 2012 | | December 2012 | | December 2012 | | QR Energy, LP |
|--|---------------|----------------|---------------|---------------|---------------|---------------|---------------|------------|---------------|
| | QR Energy, LP | December 2012 | Transferred | East Texas | Oil Field | Prize | QR Energy, LP | | |
| | | | Properties | East Texas | Oil Field | Prize | | | |
| | Historical | Properties | Pro Forma | Oil Field | Pro Forma | Prize | Pro Forma | Pro Forma | |
| Revenues: | | | | | | | | | |
| Oil and natural gas sales | \$ 257,903 | \$ 101,036 (e) | \$ - | \$ 47,846 (e) | \$ - | \$ 35,198 (e) | \$ - | \$ 441,983 | |
| Processing and other | 1,965 | - | - | - | - | - | - | 1,965 | |
| Total revenues | 259,868 | 101,036 | - | 47,846 | - | 35,198 | - | 443,948 | |
| Operating Expenses: | | | | | | | | | |
| Production expenses | 88,057 | 44,170 (e) | - | 14,514 (e) | - | 13,097 (e) | - | 159,838 | |
| Depreciation, depletion and amortization | 78,354 | - | 18,537 (f) | - | 10,765 (f) | - | 7,808 (f) | 115,464 | |
| Accretion of asset retirement obligations | 2,702 | - | 1,891 (g) | - | 233 (g) | - | 190 (g) | 5,016 | |
| General and administrative | 31,666 | - | 3,608 (h) | - | 2,093 (h) | - | 682 (h) | 38,049 | |
| Acquisition and transaction costs | - | - | - | - | - | - | - | - | |
| Total operating expenses | 200,779 | 44,170 | 24,036 | 14,514 | 13,091 | 13,097 | 8,680 | 318,367 | |
| Operating income | 59,089 | 56,866 | (24,036) | 33,332 | (13,091) | 22,101 | (8,680) | 125,581 | |
| Other income (expense): | | | | | | | | | |
| Realized (losses) on commodity derivative contracts | (72,053) | - | - | - | - | - | - | (72,053) | |
| Unrealized gains (losses) on commodity derivative contracts | 120,478 | - | (565) (i) | - | - | - | - | 119,913 | |
| Interest expense, net | (45,527) | - | (4,178) (j) | - | (5,808) (j) | - | (1,315) (j) | (56,828) | |
| Total other income (expense), net | 2,898 | - | (4,743) | - | (5,808) | - | (1,315) | (8,968) | |
| Loss before income taxes | 61,987 | 56,866 | (28,779) | 33,332 | (18,899) | 22,101 | (9,995) | 116,613 | |
| Income tax benefit, net | (850) | - | - | - | - | - | - | (850) | |
| Net income (loss) | \$ 61,137 | \$ 56,866 | \$ (28,779) | \$ 33,332 | \$ (18,899) | \$ 22,101 | \$ (9,995) | \$ 115,763 | |
| Net income per limited partner unit: | | | | | | | | | |
| Common unitholders' (basic and diluted) | \$ 0.10 | | | | | | | \$ 1.30 | |
| Subordinated unitholders' (basic and diluted) | \$ 0.10 | | | | | | | \$ 1.30 | |
| Weighted average number of limited partner units outstanding: | | | | | | | | | |
| Common units (basic and diluted) | 28,728 | | | | | | | 37,555 | |
| Subordinated units (basic and diluted) | 7,146 | | | | | | | 7,146 | |

See accompanying notes to the unaudited pro forma financial statements.

QR ENERGY, LP
NOTES TO UNAUDITED PRO FORMA FINANCIAL STATEMENTS

Except as noted within the context of each footnote disclosure, the dollar amounts presented in the tabular data within these footnote disclosures are stated in thousands of dollars.

1. Basis of Presentation

The following unaudited pro forma financial statements of QR Energy reflect the unaudited and audited historical result of QR Energy on a pro forma basis to give effect to the December 2012 Transaction for \$145 million (before estimated purchase price adjustments) and the East Texas Oil Field Acquisition for \$215 million (before estimated purchase price adjustments). The following unaudited pro forma financial statements of QR Energy also contemplate the previously completed transactions related to the Prize Acquisition for \$225 million and the April 2012 Offering resulting in \$162 million in net proceeds. The acquisition of the December 2012 Transferred Properties, the East Texas Oil Field Properties and the Prize Properties are collectively referred to herein as the “Transactions.”

The unaudited pro forma balance sheet of QR Energy as of September 30, 2012 is based on the unaudited historical consolidated balance sheet of QR Energy and includes pro forma adjustments to give effect to the December 2012 Transaction and the East Texas Oil Field Acquisition as if they had occurred on September 30, 2012. Since the December 2012 Transaction represents a transaction between entities under common control, the historic impact of the acquired assets and liabilities are carried forward from the date of common control.

The unaudited pro forma statements of operations of QR Energy for the nine months ended September 30, 2012 are based on the unaudited historical consolidated statements of operations of QR Energy, and the unaudited statements of revenues and direct operating expenses attributable to the December 2012 Transferred Properties, the East Texas Oil Field Properties, and the Prize Properties, giving effect to the December 2012 Transaction as if it had occurred on the date of common control, and the East Texas Oil Field Acquisition, the Prize Acquisition and the April 2012 Offering as if they had occurred on January 1, 2011. The unaudited pro forma statements of operations of QR Energy for the year ended December 31, 2011 are based on the audited historical consolidated statement of operations of QR Energy and audited statements of revenues and direct operating expenses attributable to the December 2012 Transferred Properties, the East Texas Oil Field Properties, and the Prize Properties, giving effect to the December 2012 Transaction as if it had occurred on the date of common control, and the East Texas Oil Field Acquisition, the Prize Acquisition and the April 2012 Offering as if they had occurred on January 1, 2011.

Pro forma data is based on currently available information and certain estimates and assumptions as explained in the notes to the unaudited pro forma financial statements. Pro forma data is not necessarily indicative of the financial results that would have been attained had the Transactions and April 2012 Offering occurred on January 1, 2011. As actual adjustments may differ from the pro forma adjustments, the pro forma amounts presented should not be viewed as indicative of operations in the future periods. The accompanying unaudited pro forma financial statements of the Partnership should be read in conjunction with QR Energy’s Quarterly Report on Form 10-Q for the nine months ended September 30, 2012 and Annual Report on Form 10-K for the year ended December 31, 2011.

2. Pro Forma Adjustments and Assumptions

Unaudited Pro Forma Balance Sheet

(a) Reflects the borrowing of \$143.6 million through available capacity under our revolving credit facility to fund the December 2012 Transaction.

- (b) Reflects the borrowing of \$214.3 million through available capacity under our revolving credit facility to fund the East Texas Oil Field Acquisition.

(c) Reflects net assets acquired as follows:

- The December 2012 Transaction for \$143.6 million after purchase price adjustments consisting of \$28.6 million in cash and \$115 million in assumed debt which will be repaid using available capacity under our revolving credit facility. The following chart illustrates the purchase price allocation between entities under common control whereby the assets and liabilities transferred will be recorded by QR Energy at historical book value of the Affiliate Sellers without any adjustments to current fair values.

| | | |
|---|----|----------|
| Oil and gas properties | | |
| Evaluated | \$ | 121,178 |
| Accumulated depreciation, depletion, and amortization | | (31,610) |
| Other assets ⁽¹⁾ | | 10,732 |
| Derivative instruments, net | | (1,333) |
| Asset retirement obligations | | (27,954) |
| Net book value of acquired properties | \$ | 71,013 |
| Deemed distribution to sellers | | 72,542 |
| Purchase Price | \$ | 143,555 |

(1) Represents a reclamation deposit in escrow as security for abandonment and redemption obligations.

- The East Texas Oil Field Acquisition for \$214.3 million subject to customary purchase price adjustments. The following chart illustrates the purchase price allocation, which is based on preliminary estimates by management, and is subject to final determination. This represents the estimated fair value of proved oil and gas properties based on discounted cash flows estimates using oil and gas forward prices.

| | | |
|-----------------------------|----|----------|
| Oil and gas properties | | |
| Evaluated | \$ | 224,689 |
| Equity investment | | 1,900 |
| Asset retirement obligation | | (11,210) |
| Other current liabilities | | (1,073) |
| Purchase price | \$ | 214,306 |

(d) Pro forma adjustment to reflect the excess of the \$143.6 million after estimated purchase price adjustments for the December 2012 Transaction over the \$71.0 million in net assets acquired from the Affiliate Sellers. Since the December 2012 Transferred Properties represents a transaction between entities under common control where the net assets acquired have been transferred at the historical book value of the Affiliate Sellers, such excess of \$72.6 million has been treated as a deemed distribution and has been allocated to QR Energy's partner accounts.

Unaudited Pro Forma Statements of Operations

(e) Reflects revenue and direct operating expenses related to the oil and gas properties acquired pursuant to the December 2012 Transaction, the East Texas Oil Field Acquisition and the Prize Acquisition.

(f) Reflects incremental depletion expense related to the oil and gas properties acquired pursuant to the Transactions.

(g) Reflects incremental accretion of the asset retirement obligations acquired pursuant to the Transactions.

(h) Reflects incremental G&A expense associated with the oil and gas properties acquired in the Transactions. The adjustment results from an incremental allocation of general and administrative expenses from our Affiliate Sellers based on a relative percentage of production, per

the Services Agreement with QRE GP and its affiliates, of the Partnership and the other affiliate entities.

(i) Reflects the unrealized losses on commodity derivative contracts associated with the December 2012 Transferred Properties, as applicable.

(j) Reflects interest expense associated with borrowings under the Partnership's revolving credit facility. The incremental interest expense is calculated as if the cash used to facilitate the Transactions had occurred on the earlier of January 1, 2011 or the date of common control

3. Pro Forma Net Income Per Limited Partner Unit

Pro forma net income per limited partner unit is determined by dividing the pro forma net income available to the limited partner unitholders, after deducting QR Energy's general partner 0.1% interest in net income, by the weighted average number of limited partner units outstanding during the nine months ended September 30, 2012 and the year ended December 31, 2011. QR Energy's general partner interest in pro forma net income was not adjusted for any changes to the management incentive fee resulting from the Transactions and the April 2012 Offering.

The following sets forth the calculation of pro forma net income per limited partner unit for the nine months ended September 30, 2012 and for the year ended December 31, 2011. The historical calculation has been adjusted to show the effect of the Transactions and the April 2012 Offering as if they had occurred on January 1, 2011.

| | Pro Forma Nine Months Ended September 30, 2012 | Pro Forma Year Ended December 31, 2011 |
|--|---|---|
| Pro forma net income | \$ 95,747 | \$ 115,763 |
| Net (income) attributable to predecessor operations | - | (49,091) |
| Distribution on Class C convertible preferred units | (10,500) | (3,424) |
| Amortization of preferred unit discount | (11,140) | (3,638) |
| Pro forma net income available to other unitholders | 74,107 | 59,610 |
| Less: general partner's interest in net income | 6,183 | 1,612 |
| Limited partners' interest in net income | <u>\$ 67,924</u> | <u>\$ 57,998</u> |
| Common unitholders' interest in net income | \$ 57,171 | \$ 48,726 |
| Subordinated unitholders' interest in net income | \$ 10,753 | \$ 9,272 |
| Pro forma net income per limited partner unit: | | |
| Common unitholders' (basic) | \$ 1.51 | \$ 1.30 |
| Common unitholders' (diluted) | \$ 1.45 | \$ 1.30 |
| Subordinated unitholders' (basic) | \$ 1.50 | \$ 1.30 |
| Subordinated unitholders' (diluted) | 1.45 | 1.30 |
| Pro forma weighted average number of limited partner units outstanding: ⁽¹⁾ | | |
| Common unitholders' (basic) | 37,794 | 37,555 |
| Common unitholders' (diluted) | 54,460 | 37,555 |
| Subordinated unitholders' (basic and diluted) | 7,146 | 7,146 |

(1) For the year ended December 31, 2011, we had weighted average preferred units of 4,109,589 which are contingently convertible. These units have an antidilutive effect on earnings per unit and have been excluded in the earnings per share calculation for the year ended December 31, 2011.

Supplemental Oil and Gas Information (Unaudited)

The following table sets forth certain unaudited pro forma information regarding estimates of the Partnership's proved crude oil, natural gas and natural gas liquids reserves as of December 31, 2011 after giving effect to the Transactions as if they had occurred on January 1, 2011. Because oil reserve estimates are inherently imprecise and require extensive judgments of reservoir engineering data, they are generally less precise than estimates made in conjunction with financial disclosures.

| | QR Energy, LP | | | December 2012 Transferred Properties | | | East Texas Oil Field Properties | | | Prize | | | QR Energy, LP | | |
|--------------------------------|----------------|---------------|----------------|---|---------------|----------------|------------------------------------|---------------|----------------|----------------|---------------|----------------|----------------|---------------|----------------|
| | Historical | | | Adjustments | | | Adjustments | | | Adjustments | | | Pro Forma | | |
| | Natural | | | Natural | | | Natural | | | Natural | | | Natural | | |
| | Oil (MMbbl) | Gas (MMcf) | NGL (MMbbl) | Oil (MMbbl) | Gas (MMcf) | NGL (MMbbl) | Oil (MMbbl) | Gas (MMcf) | NGL (MMbbl) | Oil (MMbbl) | Gas (MMcf) | NGL (MMbbl) | Oil (MMbbl) | Gas (MMcf) | NGL (MMbbl) |
| Balance, December 31, 2010 | 32,283 | 243,265 | 1,443 | 3,878 | - | 477 | 9,936 | 6,912 | - | 12,692 | 5,931 | 391 | 58,789 | 256,108 | 2,311 |
| Extensions | 1,274 | 677 | 110 | 728 | - | 101 | - | - | - | 337 | 108 | 13 | 2,339 | 785 | 224 |
| Revision of previous estimates | 2,459 | (28,463) | 6,554 | 1,574 | - | 318 | 271 | 252 | - | (550) | (1,889) | 110 | 3,754 | (30,100) | 6,982 |
| Production | (1,766) | (16,925) | (263) | (828) | - | (113) | (494) | (313) | - | (355) | (165) | (13) | (3,443) | (17,403) | (389) |
| Balance, December 31, 2011 | 34,250 | 198,554 | 7,844 | 5,352 | - | 783 | 9,713 | 6,851 | - | 12,124 | 3,985 | 501 | 61,439 | 209,390 | 9,128 |
| Proved developed reserves: | | | | | | | | | | | | | | | |
| December 31, 2010 | 19,588 | 178,657 | 1,389 | 3,528 | - | 411 | 9,803 | 6,872 | - | 12,216 | 5,614 | 370 | 45,135 | 191,143 | 2,170 |
| December 31, 2011 | 21,457 | 142,428 | 6,082 | 5,191 | - | 760 | 9,579 | 6,811 | - | 11,847 | 3,666 | 486 | 48,074 | 152,905 | 7,328 |

Summarized in the following table is information for the Partnership's unaudited pro forma standardized measure of discounted cash flows relating to estimated proved reserves as of December 31, 2011 after giving effect to the Transactions as if it had occurred on January 1, 2011. The Standardized Measure of discounted future net cash flows was determined based on the economic conditions in effect at December 31, 2011. The disclosures below do not purport to present the fair market value of the Partnership's oil and gas reserves. An estimate of the fair market value would also take into account, among other things, the recovery of reserves in excess of proved reserves, anticipated future changes in prices and costs, a discount factor more representative of the time value of money, and risks inherent in reserve estimates. The pro forma standardized measure of discounted future net cash flows is presented as follows:

| (In thousands) | QR Energy, LP | | | December 2012 Transferred Properties | | | East Texas Oil Field Properties | | | Prize | | | QR Energy, LP | | |
|--|---------------------|-------------|-----------|---|---------|-----------|------------------------------------|-----------|-----------|-------------|-----------|--|---------------|--|--|
| | Historical | | | Adjustments | | | Adjustments | | | Adjustments | | | Pro Forma | | |
| | Future cash inflows | \$ | 4,349,712 | \$ | 642,646 | \$ | 1,012,095 | \$ | 1,209,150 | \$ | 7,213,603 | | | | |
| Future production and development costs | | (1,892,789) | | (490,553) | | (417,361) | | (556,881) | | (3,357,584) | | | | | |
| Future net cash flows | | 2,456,923 | | 152,093 | | 594,734 | | 652,269 | | 3,856,019 | | | | | |
| 10% annual discount for estimated timing of cash flows | | (1,284,382) | | (12,971) | | (340,423) | | (423,486) | | (2,061,262) | | | | | |
| Standardized measure of discounted future net cash flows | \$ | 1,172,541 | \$ | 139,122 | \$ | 254,311 | \$ | 228,783 | \$ | 1,794,757 | | | | | |

The following table sets forth unaudited pro forma information for the principal sources of changes in the standardized measure of discounted future net cash flows for the year ended December 31, 2011 after giving effect to the Transactions as if it had occurred on January 1, 2011:

| (In thousands) | QR Energy, LP | | | December 2012 Transferred Properties | | | East Texas Oil Field Properties | | | Prize | | | QR Energy, LP | | |
|---|---------------------|----------|---------|---|--------|-------|------------------------------------|----------|---------|-------------|-----------|--|---------------|--|--|
| | Historical | | | Adjustments | | | Adjustments | | | Adjustments | | | Pro Forma | | |
| | Beginning of period | \$ | 996,580 | \$ | 53,444 | \$ | 203,110 | \$ | 191,340 | \$ | 1,444,474 | | | | |
| Extensions | | 26,016 | | 16,924 | | - | | 9,596 | | 52,536 | | | | | |
| Revisions of previous estimates | | 66,579 | | 47,775 | | 7,320 | | (10,266) | | 111,408 | | | | | |
| Changes in future development cost, net | | (50,872) | | (9,083) | | - | | (334) | | (60,289) | | | | | |
| Development cost incurred during the year | | | | | | | | | | | | | | | |

| | | | | | |
|--------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|
| that reduce future development costs | 9,598 | 2,396 | - | 387 | 12,381 |
| Net change in prices | 192,290 | 69,112 | 64,125 | 61,307 | 386,834 |
| Sales, net of production costs | (169,846) | (54,506) | (33,332) | (21,588) | (279,272) |
| Changes in timing and other | 2,538 | 7,716 | (7,223) | (20,793) | (17,762) |
| Accretion of discount | 99,658 | 5,344 | 20,311 | 19,134 | 144,447 |
| End of period | <u>\$ 1,172,541</u> | <u>\$ 139,122</u> | <u>\$ 254,311</u> | <u>\$ 228,783</u> | <u>\$ 1,794,757</u> |