

Edgar Filing: Gulf Coast Ultra Deep Royalty Trust - Form 10-Q

Gulf Coast Ultra Deep Royalty Trust  
Form 10-Q  
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36386

Gulf Coast Ultra Deep Royalty Trust

(Exact name of registrant as specified in its charter)

Delaware

46-6448579

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

The Bank of New York Mellon Trust Company, N.A., as trustee

Institutional Trust Services

919 Congress Avenue, Suite 500

Austin, Texas 78701

(Address of principal executive offices, including zip code)

(512) 236-6599

(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. x Yes o 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). o Yes o 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer x

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o

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

On July 31, 2015, there were outstanding 230,172,696 royalty trust units representing beneficial interests in the registrant.

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Gulf Coast Ultra Deep Royalty Trust  
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

GULF COAST ULTRA DEEP ROYALTY TRUST  
STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS

|   | June 30,<br>2015 | December 31, 2014 |
|---|------------------|-------------------|
| ASSETS  | (unaudited)      | (audited)         |
| Operating cash  | \$ 269,279       | \$ 140,472        |
| Reserve fund cash   | 1,000,049        | 1,000,042         |
| Overriding royalty interests in subject interests   | 78,823,645       | 168,567,700       |
| Total assets  | \$ 80,092,973    | \$ 169,708,214    |
| LIABILITIES AND TRUST CORPUS  |                  |                   |
| Reserve fund liability  | \$ 1,000,049     | \$ 1,000,042      |
| Loan payable to Freeport-McMoRan Inc. (FCX)   | 650,000          | 650,000           |
| Trust corpus (230,172,696 royalty trust units authorized, issued and outstanding as of June 30, 2015 and December 31, 2014) | 78,442,924       | 168,058,172       |
| Total liabilities and trust corpus  | \$ 80,092,973    | \$ 169,708,214    |

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

GULF COAST ULTRA DEEP ROYALTY TRUST  
 STATEMENTS OF DISTRIBUTABLE INCOME (Unaudited)

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | June 30,           |              | June 30,         |              |
|  | 2015               | 2014         | 2015             | 2014         |
| Royalty income   | \$ 120,475         | \$—          | \$ 120,475       | \$—          |
| Interest income  | —                  | —            | 1                | —            |
| Administrative expenses                                      | (213,502 )         | (301,836 )   | (341,669 )       | (370,921 )   |
| Administrative expenses in excess of income                  | \$(93,027 )        | \$(301,836 ) | \$(221,193 )     | \$(370,921 ) |
| Distributable income   | \$—                | \$—          | \$—              | \$—          |
| Distributable income per royalty trust unit                  | \$—                | \$—          | \$—              | \$—          |
| Royalty trust units outstanding at June 30,<br>2015 and 2014 | 230,172,696        | 230,172,696  | 230,172,696      | 230,172,696  |

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

GULF COAST ULTRA DEEP ROYALTY TRUST  
 STATEMENTS OF CHANGES IN TRUST CORPUS (Unaudited)

|   | Three Months Ended |                | Six Months Ended |                |
|---|--------------------|----------------|------------------|----------------|
|   | June 30,<br>2015   | 2014           | June 30,<br>2015 | 2014           |
| Trust corpus, beginning of period                                 | \$ 161,815,406     | \$ 371,420,807 | \$ 168,058,172   | \$ 400,044,192 |
| Trust contributions   | 350,000            | 350,000        | 350,000          | 350,000        |
| Amortization of overriding royalty interests in subject interests | (247,055 )         | —              | (247,055 )       | —              |
| Impairment of subject interests                                   | (83,382,400 )      | —              | (89,497,000 )    | (28,554,300 )  |
| Administrative expenses in excess of income                       | (93,027 )          | (301,836 )     | (221,193 )       | (370,921 )     |
| Trust corpus, end of period                                       | \$ 78,442,924      | \$ 371,468,971 | \$ 78,442,924    | \$ 371,468,971 |

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

GULF COAST ULTRA DEEP ROYALTY TRUST  
NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Gulf Coast Ultra Deep Royalty Trust (the Royalty Trust) are prepared on the modified cash basis of accounting and are not intended to present the Royalty Trust's financial position and results of operations in conformity with United States (U.S.) generally accepted accounting principles (GAAP). This other comprehensive basis of accounting corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission (SEC), as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts. There has been no distributable income paid or due to the Royalty Trust unitholders from December 18, 2012 (inception) through June 30, 2015.

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all required information and disclosures. Therefore, this information should be read in conjunction with the Royalty Trust's financial statements and notes contained in its annual report on Form 10-K for the year ended December 31, 2014. The information furnished herein reflects all adjustments that are, in the opinion of The Bank of New York Mellon Trust Company, N.A. (the Trustee), necessary for a fair statement of the results for the interim periods reported. With the exception of the impairment of overriding royalty interests in the subject interests discussed below, all such adjustments are, in the opinion of the Trustee, of a normal recurring nature. Operating results for the three-month and six-month periods ended June 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

The Royalty Trust's operating cash and reserve fund cash amounts represent deposits in highly liquid short-term U.S. Treasury money market funds.

The Royalty Trust was created to hold a 5 percent gross overriding royalty interest (collectively, the overriding royalty interests) in future production from each of McMoRan Oil & Gas LLC's (McMoRan) Inboard Lower Tertiary/Cretaceous exploration prospects located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana that existed as of December 5, 2012 (collectively, the subject interests). The carrying value of the Royalty Trust's overriding royalty interests in the subject interests is amortized using the units of production method based on estimated proved reserves, on an individual subject interest basis, once production has been achieved for the respective subject interests. Such non-cash amortization is charged directly to the Trust Corpus as royalties are received, and will not affect distributable cash or the determination of distributable cash per royalty trust unit (see Note 2).

The Royalty Trust evaluates the carrying values of the overriding royalty interests in the subject interests for impairment if conditions indicate that potential uncertainty exists regarding the Royalty Trust's ability to recover its recorded amounts related to the overriding royalty interests. Indications of potential impairment with respect to the overriding royalty interests can include, among other things, subject interest lease expirations, reductions in estimated reserve quantities or resource potential, changes in estimated future oil and gas prices, exploration costs, and/or drilling plans, and other matters that arise that could negatively impact the carrying values of the overriding royalty interests. If an impairment event occurs and it is determined that the carrying value of the Royalty Trust's overriding royalty interests in the subject interests may not be recoverable, an impairment will be recognized as measured by the amount by which the carrying amount of the overriding royalty interests in the subject interests exceeds the fair value of these assets, which would be measured by discounting projected cash flows. The related impairment amounts are recorded as a reduction to the overriding royalty interests with an offsetting reduction to the Trust Corpus in the period such impairment is determined (see Note 2).

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During the first half of 2015, the Royalty Trust paid administrative expenses of \$341,669 (\$213,502 of which was paid during the second quarter of 2015) and during the first half of 2014, the Royalty Trust paid administrative expenses of \$370,921 (\$301,836 of which was paid during the second quarter of 2014). Administrative expenses consisted primarily of audit, legal and trustee expenses incurred in connection with the administration of the Royalty Trust.

## 2. OVERRIDING ROYALTY INTERESTS

An impairment charge of \$89.5 million, representing the carrying value associated with the offshore England and onshore Tortuga subject interests, was recorded for the six-month period ended June 30, 2015 (\$83.4 million of which was recorded for the three-month period ended June 30, 2015). McMoRan informed the Trustee that it does not plan to drill or conduct operational activities on these subject interests prior to their lease expiration dates. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire.

An impairment charge of \$28.6 million, representing the carrying value associated with the offshore Barbosa subject interest, was recorded for the six-month period ended June 30, 2014. At that time, McMoRan informed the Trustee it did not plan to drill or conduct operational activities on the offshore Barbosa subject interest prior to its June 30, 2014 lease expiration date.

An amortization charge related to production volumes associated with the onshore Highlander subject interest reduced the carrying value of the overriding royalty interest in the subject interests by \$247,055 for the three-month and six-month periods ended June 30, 2015.

McMoRan's lease rights to the offshore Davy Jones, Blackbeard East, Blackbeard West, Barbosa, Morgan, Barataria, Blackbeard West #3, Drake, Hook, Captain Blood, Bonnet, Queen Anne's Revenge and Calico Jack subject interests have expired or were relinquished. McMoRan has informed the Trustee that it either has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander and Lineham Creek subject interests (see Note 6). In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

## 3. INCOME TAXES

Tax counsel to the special committee of the board of directors of McMoRan Exploration Co. advised the Royalty Trust at the time of formation that, for U.S. federal income tax purposes, in its opinion, the Royalty Trust will be treated as a grantor trust and not as an unincorporated business entity. No ruling has been or will be requested from the Internal Revenue Service (IRS) or another taxing authority. As a grantor trust, the Royalty Trust will not be subject to tax at the Royalty Trust level. Rather, the Royalty Trust unitholders will be considered to own and receive the Royalty Trust's assets and income and will be directly taxable thereon as though no trust were in existence. Under Treasury Regulations, the Royalty Trust is classified as a widely held fixed investment trust. Those Treasury Regulations require the sharing of tax information among trustees and intermediaries that hold a trust interest on behalf of or for the account of a beneficial owner or any representative or agent of a trust interest holder of fixed investment trusts that are classified as widely held fixed investment trusts. These reporting requirements provide for the dissemination of trust tax information by the trustee to intermediaries who are ultimately responsible for reporting the investor-specific information through Form 1099 to the investors and the IRS. Every trustee or intermediary that is required to file a Form 1099 for a trust unitholder must furnish a written tax information statement that is in support of the amounts as reported on the applicable Form 1099 to the trust unitholder. Any generic tax information provided by the Trustee of the Royalty Trust is intended to be used only to assist Royalty Trust unitholders in the preparation of their U.S. federal and state income tax returns.

## 4. RELATED PARTY TRANSACTIONS

Royalties. The onshore Highlander subject interest began commercial production on February 25, 2015 (see Note 6). In accordance with the master conveyance of overriding royalty interest (the master conveyance), in the second quarter of 2015, the Royalty Trust received royalties from McMoRan of \$120,475 resulting from the onshore Highlander subject interest's production, which is paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance. Royalties received by the Royalty Trust will not result in immediate distributions to the Royalty Trust

unitholders as royalties are first subject to payment of loans outstanding, administrative expenses of the Royalty Trust and the establishment of a cash reserve for payment of future liabilities as determined at the discretion of the Trustee. Royalty receipts were not sufficient to repay the Royalty Trust's existing indebtedness or to cover administrative expenses of the Royalty Trust in the first half of 2015. As a result, there were no distributions paid to Royalty Trust unitholders during such period. Additionally, there are no distributions anticipated during the remainder of 2015.

Funding of Administrative Expenses. Pursuant to the royalty trust agreement, FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due, to the extent the

Royalty Trust lacks sufficient funds to pay administrative expenses. During each of the three-month periods ended June 30, 2015 and 2014, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which has been repaid as of June 30, 2015. All funds the Trustee borrows to cover expenses or liabilities, whether from FCX or from any other source, must be repaid before the Royalty Trust unitholders will receive any distributions.

Compensation of the Trustee. The Trustee is paid the sum of \$150,000 per year, in advance, until the first year in which the Royalty Trust receives any royalty payments pursuant to the conveyances of the overriding royalty interests, at which time such sum will be increased to \$200,000 per year. Because the Royalty Trust received royalties related to the onshore Highlander subject interest in the second quarter of 2015, the Trustee will be paid \$200,000 per year beginning in 2015. Additionally, the Trustee receives reimbursement for its reasonable out-of-pocket expenses incurred in connection with the administration of the Royalty Trust. The Trustee's compensation is paid out of the Royalty Trust's assets. The Trustee has a lien on the Royalty Trust's assets to secure payment of its compensation and any indemnification expenses and other amounts to which it is entitled under the royalty trust agreement.

Royalty Trust Units Held by FCX. At June 30, 2015, the Royalty Trust had 230,172,696 royalty trust units outstanding and FCX, through its indirect wholly owned subsidiary McMoRan, held 62,285,438 royalty trust units (or 27.1 percent of the outstanding royalty trust units). FCX is currently the largest holder of outstanding royalty trust units.

## 5. CONTINGENCIES AND OTHER COMMITMENTS

Litigation. There are currently no pending legal proceedings to which the Royalty Trust is a party.

Other. On April 8, 2015, the Royalty Trust received a letter from the Listing Qualifications Staff (the Staff) of The NASDAQ Stock Market LLC (NASDAQ) notifying the Royalty Trust that, because the closing bid price of the royalty trust units had been below \$1.00 per unit for 30 consecutive business days, the Royalty Trust no longer complies with the bid price requirements for continued listing on The NASDAQ Capital Market set forth in NASDAQ Listing Rule 5550(a)(2). The notice does not affect the Royalty Trust's listing on The NASDAQ Capital Market at this time, and the royalty trust units are expected to continue to trade under the symbol "GULTU," subject to the matters discussed below.

In accordance with NASDAQ Listing Rule 5810(c)(3)(A), the Royalty Trust has a period of 180 calendar days, or until October 5, 2015, in which to regain compliance with the minimum bid price requirement. In order to regain compliance, the closing bid price of the royalty trust units must be at least \$1.00 per unit for a minimum of ten consecutive business days during this 180-day period. If the Royalty Trust does not demonstrate compliance with the minimum bid price requirement by October 5, 2015, the Royalty Trust may be eligible to seek an additional compliance period of 180 calendar days if it then meets the continued listing requirement for market value of publicly held shares and all other initial listing standards for The NASDAQ Capital Market, with the exception of the bid price requirement, and provides written notice to NASDAQ of its intention to cure the deficiency during the second compliance period, by effecting a reverse stock split, if necessary. However, if it appears to the Staff that the Royalty Trust will not be able to cure the deficiency, or if the Royalty Trust is otherwise not eligible, the Staff will provide notice that the royalty trust units will be subject to delisting.

## 6. SUBSEQUENT EVENTS

In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is

restored.

During the third quarter of 2015, McMoRan informed the Trustee that it does not plan to further develop the offshore Lafitte subject interest. The carrying value associated with the offshore Lafitte subject interest was zero as of June 30, 2015. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

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The Royalty Trust evaluated all other events subsequent to June 30, 2015, and through the date the Royalty Trust's financial statements were issued, and determined that all events or transactions occurring during this period requiring recognition or disclosure were appropriately addressed in these financial statements.

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

OVERVIEW

You should read the following discussion in conjunction with the financial statements of Gulf Coast Ultra Deep Royalty Trust (the Royalty Trust). The results of operations reported and summarized below are not necessarily indicative of future operating results. Unless otherwise specified, all references to "Notes" refer to Notes to Financial Statements located in Part I, Item I. "Financial Statements" in this Form 10-Q. Also see the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the United States (U.S.) Securities and Exchange Commission (SEC) for a glossary of definitions for some of the oil and gas industry terms used in this Form 10-Q. Additionally, please refer to the section entitled "Cautionary Statement" on page 16 of this Form 10-Q. The information below has been furnished to the Trustee by Freeport-McMoRan Inc. (FCX) and FCX's indirect wholly owned subsidiary, McMoRan Oil & Gas LLC (McMoRan).

On June 3, 2013, FCX and McMoRan Exploration Co. (MMR) completed the transactions contemplated by the Agreement and Plan of Merger, dated as of December 5, 2012 (the merger agreement), by and among MMR, FCX, and INAVN Corp., a Delaware corporation and indirect wholly owned subsidiary of FCX (Merger Sub). Pursuant to the merger agreement, Merger Sub merged with and into MMR, with MMR surviving the merger as an indirect wholly owned subsidiary of FCX (the merger).

FCX's portfolio of oil and gas assets is held through its wholly owned subsidiary, FCX Oil & Gas Inc. (FM O&G). As a result of the merger, MMR and McMoRan (MMR's wholly owned operating subsidiary) are both wholly owned subsidiaries of FM O&G.

The Royalty Trust was created as contemplated by the merger agreement, and is a statutory trust created by FCX under the Delaware Statutory Trust Act pursuant to a trust agreement entered into on December 18, 2012 (inception), by and among FCX, as depositor, Wilmington Trust, National Association, as Delaware trustee, and certain officers of FCX, as regular trustees. On May 29, 2013, Wilmington Trust, National Association, was replaced by BNY Trust of Delaware, as Delaware trustee (the Delaware Trustee), through an action of the depositor. Effective June 3, 2013, the regular trustees were replaced by The Bank of New York Mellon Trust Company, N.A., a national banking association, as trustee (the Trustee).

The Royalty Trust was created to hold a 5 percent gross overriding royalty interest (collectively, the overriding royalty interests) in future production from each of McMoRan's Inboard Lower Tertiary/Cretaceous exploration prospects located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana that existed as of December 5, 2012, the date of the merger agreement (collectively, the subject interests). The subject interests were "carved out" of the mineral interests that were acquired by FCX pursuant to the merger and were not considered part of FCX's purchase consideration of MMR. McMoRan owns less than 100 percent of the working interest associated with each of the subject interests. McMoRan has informed the Trustee that it either has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander and Lineham Creek subject interests. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

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In connection with the merger, on June 3, 2013, (1) FCX, as depositor, McMoRan, as grantor, the Trustee and the Delaware Trustee, entered into the amended and restated royalty trust agreement to govern the Royalty Trust and the respective rights and obligations of FCX, the Trustee, the Delaware Trustee, and the Royalty Trust unitholders with respect to the Royalty Trust (the royalty trust agreement); and (2) McMoRan, as grantor, and the Royalty Trust, as grantee, entered into the master conveyance of overriding royalty interest (the master conveyance) pursuant to which McMoRan conveyed to the Royalty Trust the overriding royalty interests in future production from the subject interests. Other than (a) its formation, (b) its receipt of contributions and loans from FCX for administrative and other expenses as provided for in the royalty trust agreement, (c) its payment of such administrative and other expenses, (d) its receipt of the conveyance of the overriding royalty interests from

McMoRan pursuant to the master conveyance, and (e) its receipt of royalties from McMoRan, the Royalty Trust has not conducted any activities. The Trustee has no involvement with, control over, or responsibility for, any aspect of any operations on or relating to the subject interests.

The Trustee is paid the sum of \$150,000 per year, in advance, until the first year in which the Royalty Trust receives any royalty payment pursuant to the conveyances of the overriding royalty interests, at which time such sum will be increased to \$200,000 per year. Because the Royalty Trust received royalties related to the onshore Highlander subject interest in the second quarter of 2015, the Trustee will be paid \$200,000 per year beginning in 2015. Additionally, the Trustee receives reimbursement for its reasonable out-of-pocket expenses incurred in connection with the administration of the Royalty Trust. The Trustee's compensation is paid out of the Royalty Trust's assets. The Trustee has a lien on the Royalty Trust's assets to secure payment of its compensation and any indemnification expenses and other amounts to which it is entitled under the royalty trust agreement.

McMoRan has informed the Trustee that since 2008, McMoRan's Inboard Lower Tertiary/Cretaceous drilling activities (below the salt weld, i.e., the listric fault) have confirmed McMoRan's belief relating to its geologic model and the highly prospective nature of this emerging geologic trend. McMoRan believes that data from eight Inboard Lower Tertiary/Cretaceous wells drilled to date indicate the presence of geologic formations that are analogous to productive formations in the Deepwater Gulf of Mexico and onshore in the Gulf Coast region. During the fourth quarter of 2014, McMoRan informed the Trustee that due to the sharp decline in oil prices, budgeted 2015 capital expenditures were reduced and near-term activities on all subject interests except for the onshore Highlander subject interests were deferred. Each of these eight wells was included in the subject interests, along with additional exploration prospects that will also be burdened by the overriding royalty interests. The onshore Highlander subject interest began commercial production on February 25, 2015. Prior to this date there had been no commercial production of hydrocarbons from any of the subject interests. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is restored.

The Royalty Trust has no ability to direct or influence the exploration or development of the subject interests. In addition, neither FCX nor McMoRan are under any obligation to fund or to commit any resources to the exploration or development of the subject interests. To the extent that McMoRan does not fund the exploration and development of the subject interests, or if for any other reason sufficient production from the subject interests in commercial quantities is not achieved or maintained, Royalty Trust unitholders will not realize any value from their investment in the royalty trust units.

The royalty trust units began trading on The NASDAQ Capital Market under the symbol "GULTU" on June 2, 2014. Prior to June 2, 2014 and beginning October 10, 2013, the royalty trust units were quoted on the OTCQX tier of the over-the-counter, or OTC markets under the symbol "GULTU". Prior to October 10, 2013 and beginning June 4, 2013, the royalty trust units were quoted on the OTC Bulletin Board. Prior to June 4, 2013, there was no established public trading market for the royalty trust units.

On April 8, 2015, the Royalty Trust received a letter from the Listing Qualifications Staff (the Staff) of The NASDAQ Stock Market LLC (NASDAQ) notifying the Royalty Trust that, because the closing bid price of the royalty trust units had been below \$1.00 per unit for 30 consecutive business days, the Royalty Trust no longer complies with the bid price requirements for continued listing on The NASDAQ Capital Market set forth in NASDAQ Listing Rule 5550(a)(2). The notice does not affect the Royalty Trust's listing on The NASDAQ Capital Market at this time, and the royalty trust units are expected to continue to trade under the symbol "GULTU," subject to the matters discussed below.

In accordance with NASDAQ Listing Rule 5810(c)(3)(A), the Royalty Trust has a period of 180 calendar days, or until October 5, 2015, in which to regain compliance with the minimum bid price requirement. In order to regain

compliance, the closing bid price of the royalty trust units must be at least \$1.00 per unit for a minimum of ten consecutive business days during this 180-day period. If the Royalty Trust does not demonstrate compliance with the minimum bid price requirement by October 5, 2015, the Royalty Trust may be eligible to seek an additional compliance period of 180 calendar days if it then meets the continued listing requirement for market value of publicly held shares and all other initial listing standards for The NASDAQ Capital Market, with the exception of the bid price requirement, and provides written notice to NASDAQ of its intention to cure the deficiency during the second compliance period, by effecting a reverse stock split, if necessary. However, if it appears to the Staff that

the Royalty Trust will not be able to cure the deficiency, or if the Royalty Trust is otherwise not eligible, the Staff will provide notice that the royalty trust units will be subject to delisting.

The Royalty Trust intends to monitor the bid price of the royalty trust units between now and October 5, 2015, and will consider potentially available options that might enable the Royalty Trust to regain compliance with the NASDAQ listing requirements. There can be no assurance that the Royalty Trust will be able to regain compliance with the minimum bid price requirement or maintain compliance with the other NASDAQ listing requirements. At this time, the Royalty Trust has not determined to take any other action in response to the letter from the Staff. The high trading price of the royalty trust units on August 5, 2015 was \$0.41. If the royalty trust units were delisted from The NASDAQ Capital Market, the royalty trust units would again be traded OTC. OTC transactions involve risks in addition to those associated with transactions in securities traded on The NASDAQ Capital Market. Many OTC securities trade less frequently and in smaller volumes than securities traded on The NASDAQ Capital Market. Accordingly, the royalty trust units would be less liquid, and the value of the royalty trust units could further decline.

## LIQUIDITY AND CAPITAL RESOURCES

Pursuant to the royalty trust agreement, FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due, to the extent the Royalty Trust lacks sufficient funds to pay administrative expenses. During each of the three-month periods ended June 30, 2015 and 2014, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which has been repaid as of June 30, 2015. All funds the Trustee borrows to cover expenses or liabilities, whether from FCX or from any other source, must be repaid before the Royalty Trust unitholders will receive any distributions.

Pursuant to the royalty trust agreement, FCX agreed to provide and maintain a \$1.0 million stand-by reserve account or an equivalent letter of credit for the benefit of the Royalty Trust to enable the Trustee to draw on the reserve account or letter of credit to pay obligations of the Royalty Trust in the event that it has inadequate funds to pay its obligations at any time. Currently, with the consent of the Trustee, FCX may reduce the reserve account or substitute a letter of credit with a different face amount for the original letter of credit or any substitute letter of credit. In connection with this arrangement, FCX has provided \$1.0 million in the form of a reserve fund cash account to the Royalty Trust. The Royalty Trust has not drawn any funds from the reserve account, and FCX has not requested a reduction of such reserve account.

The onshore Highlander subject interest began commercial production on February 25, 2015. In accordance with the master conveyance, in the second quarter of 2015, the Royalty Trust received royalties from McMoRan of \$120,475 resulting from the onshore Highlander subject interest's production, which is paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance. Royalties received by the Royalty Trust will not result in immediate distributions to the Royalty Trust unitholders as royalties are first subject to payment of loans outstanding, administrative expenses of the Royalty Trust and the establishment of a cash reserve for payment of future liabilities as determined at the discretion of the Trustee. Royalty receipts were not sufficient to repay the Royalty Trust's existing indebtedness or to cover administrative expenses of the Royalty Trust in the first half of 2015. As a result, there were no distributions paid to Royalty Trust unitholders during such period. Additionally, there are no distributions anticipated during the remainder of 2015. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is restored. The Royalty Trust's only other sources of liquidity are mandatory annual

contributions, any loans and the required standby reserve account or letter of credit from FCX. As a result, any material adverse change in FCX's or McMoRan's financial condition or results of operations could materially and adversely affect the Royalty Trust and the underlying royalty trust units.

On a quarterly basis the Trustee determines the amount of funds available for distribution to the Royalty Trust unitholders. Available funds equal the excess cash received by the Royalty Trust from the overriding royalty interests and other sources during that quarter over the Royalty Trust's liabilities for that quarter. In any event, no distributions will be made until such time as the Trustee receives cash proceeds from the overriding royalty interests. Additionally, to the extent that the Trustee has borrowed funds, whether from FCX or from any other

source, to cover expenses or liabilities, the Royalty Trust unitholders will not receive distributions until the borrowed funds are repaid. Available funds will be further reduced by any cash the Trustee determines to hold as a reserve against future liabilities. The Trustee shall establish a cash reserve equal to such amount. Royalty Trust unitholders that own their royalty trust units on the close of business on the record date for each calendar quarter will receive a pro-rata distribution of the amount of the cash available for distribution generally 10 business days after the quarterly record date.

#### OFF-BALANCE SHEET ARRANGEMENTS

The Royalty Trust has no off-balance sheet arrangements. The Royalty Trust has not guaranteed the debt of any other party, nor does the Royalty Trust have any other arrangements or relationships with other entities that could potentially result in unconsolidated debt, losses or contingent obligations.

#### THE SUBJECT INTERESTS

The royalty trust units represent beneficial interests in the Royalty Trust, which holds a 5 percent gross overriding royalty interest in future production from each of the subject interests during the life of the Royalty Trust. An "overriding" royalty interest in general represents a non-operating interest in an oil and gas property that provides the owner a specified share of production without any related operating expenses or development costs and is carved out of an oil and gas lessee's working or cost-bearing interest under the lease. In contrast, a "working" or "cost-bearing" interest in general represents an operating interest in an oil and gas property that provides the owner a specified share of production that is subject to all production expenses and development costs. An owner of a working or cost-bearing interest, subject to the terms of an applicable operating agreement, generally has the right to participate in the selection of a prospect, drilling location or drilling contractor, to propose the drilling of a well, to determine the timing and sequence of drilling operations, to commence or shut down production, to take over operations, or to share in any operating decision. An owner of an overriding royalty interest in general has none of the rights described in the preceding sentence, and neither the Royalty Trust nor the Royalty Trust unitholders have any such rights.

The subject interests consist of 20 specified Inboard Lower Tertiary/Cretaceous prospects (which have target depths generally greater than 18,000 feet total vertical depth) located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana, one of which began commercial production in 2015 and the rest of which are exploration prospects. The offshore subject interests consist of the following exploration prospects: (1) Barataria; (2) Barbosa; (3) Blackbeard East; (4) Blackbeard West; (5) Blackbeard West #3; (6) Bonnet; (7) Calico Jack; (8) Captain Blood; (9) Davy Jones; (10) Davy Jones West; (11) Drake; (12) England; (13) Hook; (14) Hurricane; (15) Lafitte; (16) Morgan; and (17) Queen Anne's Revenge. The onshore subject interests consist of (1) Highlander; (2) Lineham Creek; and (3) Tortuga. With the exception of the onshore Highlander subject interest, which began commercial production on February 25, 2015, the onshore subject interests are currently exploration prospects. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is restored. McMoRan does not own 100 percent of the working interest associated with any of the subject interests. The overriding royalty interests in future production from the subject interests burden all of McMoRan's leasehold interests associated with such prospects as of December 5, 2012, and will burden any leasehold interests associated with such prospects which are acquired by McMoRan on or before December 5, 2017, up to the estimated working interests reflected in the table below (subject to McMoRan's right to dispose of a portion of the working interests to a percentage not less than the estimated working interests reflected in the table below). Each of the overriding royalty interests has been, or will be, proportionately reduced based on McMoRan's working interest to equal the product of 5 percent multiplied by a fraction, the numerator of which is the working interest held by McMoRan and its affiliates associated with the applicable subject interest (subject to a cap equal to McMoRan's estimated working interest (equal to the working

interest McMoRan owns or expects to acquire and as reflected in the table below) associated with each subject interest, on a prospect by prospect basis) and the denominator of which is 100 percent.

As of December 5, 2012, the date of the merger agreement, the subject interests comprised all of McMoRan's Inboard Lower Tertiary/Cretaceous exploration prospects. Additional Inboard Lower Tertiary/Cretaceous exploration prospects developed by McMoRan (other than those reflected below) will not be included in the subject interests. As of June 30, 2015, McMoRan had acquired working interests in additional Inboard Lower Tertiary/Cretaceous exploration prospects that are not part of the subject interests.

An impairment charge of \$89.5 million, representing the carrying value associated with the offshore England and onshore Tortuga subject interests, was recorded for the six-month period ended June 30, 2015 (\$83.4 million of which was recorded for the three-month period ended June 30, 2015). McMoRan informed the Trustee that it does not plan to drill or conduct operational activities on these subject interests prior to their lease expiration dates. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire.

An impairment charge of \$28.6 million, representing the carrying value associated with the offshore Barbosa subject interest, was recorded for the six-month period ended June 30, 2014. At that time, McMoRan informed the Trustee it did not plan to drill or conduct operational activities on the offshore Barbosa subject interest prior to its June 30, 2014, lease expiration date.

McMoRan has informed the Trustee that it either has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander and Lineham Creek subject interests. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

Information regarding McMoRan's estimated working interest and the Royalty Trust's estimated overriding royalty interest for each subject interest as of June 30, 2015, is set forth below.

| Subject Interest                    | McMoRan's Estimated Working Interest Related to the Subject Interests | Operator | Royalty Trust's Estimated Overriding Royalty Interest (5% proportionately reduced to reflect the Estimated Working Interest) |
|-------------------------------------|---|----------|--|
| Davy Jones <sup>(a)</sup>           | —   | McMoRan  | —  |
| Blackbeard East <sup>(a)</sup>      | —   | McMoRan  | —  |
| Lafitte <sup>(b)</sup>              | 72%   | McMoRan  | 3.6%   |
| Blackbeard West <sup>(a)</sup>      | —   | McMoRan  | —  |
| England <sup>(c)</sup>              | 36%   | McMoRan  | 1.8%   |
| Barbosa <sup>(a)</sup>              | —   | McMoRan  | —  |
| Morgan <sup>(a)</sup>               | —   | McMoRan  | —  |
| Barataria <sup>(a)</sup>            | —   | McMoRan  | —  |
| Blackbeard West #3 <sup>(a)</sup>   | —   | McMoRan  | —  |
| Drake <sup>(a)</sup>                | —   | McMoRan  | —  |
| Davy Jones West <sup>(d)</sup>      | 36%   | McMoRan  | 1.8%   |
| Hurricane <sup>(d)</sup>            | 72%   | McMoRan  | 3.6%   |
| Hook <sup>(a)</sup>                 | —   | McMoRan  | —  |
| Captain Blood <sup>(a)</sup>        | —   | McMoRan  | —  |
| Bonnet <sup>(a)</sup>               | —   | McMoRan  | —  |
| Queen Anne's Revenge <sup>(a)</sup> | —   | McMoRan  | —  |
| Calico Jack <sup>(a)</sup>          | —   | McMoRan  | —  |
| Highlander                          | 72%   | McMoRan  | 3.6%   |
| Lineham Creek                       | 36%   | Chevron  | 1.8%   |
| Tortuga <sup>(c)</sup>              | 72%   | McMoRan  | 3.6%   |

(a) McMoRan's lease rights to the offshore Davy Jones, Blackbeard East, Blackbeard West, Barbosa, Morgan, Barataria, Blackbeard West #3, Drake, Hook, Captain Blood, Bonnet, Queen Anne's Revenge and Calico Jack subject

interests have expired or were relinquished. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests, and if this were to occur, it is expected that the Royalty Trust's overriding

royalty interest would be 5 percent of McMoRan's estimated working interest as indicated in the master conveyance.

(b) During the third quarter of 2015, McMoRan informed the Trustee that it does not plan to further develop the offshore Lafitte subject interest. The carrying value associated with the offshore Lafitte subject interest was zero as of June 30, 2015. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

(c) An impairment charge of \$89.5 million, representing the carrying value associated with the offshore England and onshore Tortuga subject interests, was recorded for the six-month period ended June 30, 2015 (\$83.4 million of which was recorded for the three-month period ended June 30, 2015). McMoRan informed the Trustee that it does not plan to drill or conduct operational activities on these subject interests prior to their lease expiration dates. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

(d) McMoRan has informed the Trustee that it does not plan to develop the offshore Davy Jones West and Hurricane subject interests. The carrying values associated with these subject interests were zero as of December 31, 2014. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related leases will terminate when the related leases expire. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

The Royalty Trust has no ability to influence the exploration or development of the subject interests. In addition, neither FCX nor McMoRan are under any obligation to fund or to commit any other resources to the exploration or development of the subject interests. Further, FCX and McMoRan each has the right to elect not to participate in drilling or other operations conducted by other working interest owners with respect to the subject interests.

The Royalty Trust will dissolve on the earliest to occur of (i) June 3, 2033, (ii) the sale of all of the overriding royalty interests, (iii) the election by the Trustee following its resignation for cause (as more fully described in the royalty trust agreement), (iv) a vote of the holders of 80 percent (which after June 3, 2018, shall be reduced to 66 percent) or more of the outstanding royalty trust units held by persons other than FCX or any of its affiliates, at a duly called meeting of the Royalty Trust unitholders at which a quorum is present, or (v) the exercise by FCX of the right to call all of the royalty trust units as described in the next paragraph. The overriding royalty interests terminate upon the termination of the Royalty Trust, other than in certain limited circumstances where the Royalty Trust has been permitted to transfer the overriding royalty interests to a third party pursuant to the terms of the royalty trust agreement (in which case the overriding royalty interests may extend through June 3, 2033).

FCX has a call right with respect to the outstanding royalty trust units at \$10 per royalty trust unit, provided that the call right may not be exercised prior to June 3, 2018. In addition, at any time after June 3, 2018, if the royalty trust units are then listed for trading or admitted for quotation on a national securities exchange or any quotation system and the volume weighted average price per royalty trust unit is equal to \$0.25 or less for the immediately preceding consecutive nine-month period, FCX may purchase all, but not less than all, of the outstanding royalty trust units at a price of \$0.25 per royalty trust unit so long as FCX tenders payment within 30 days following the end of such nine-month period.



Exploration and Development Activities. McMoRan has a position in the Inboard Lower Tertiary/Cretaceous natural gas trend, located onshore in South Louisiana.

In second-quarter 2015, the Highlander well, which has been restricted because of limited processing facilities, averaged a gross rate of 22 MMcf per day (approximately 11 MMcf per day net to McMoRan). As previously reported by FCX, production testing in February 2015 indicated a flow rate of 75 MMcf per day (approximately 37 MMcf per day net to McMoRan). McMoRan has stated that it is developing additional processing facilities to accommodate the higher flow rates with installation expected by year-end 2015. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. A second well location has been identified, and future plans are being considered. McMoRan has identified multiple additional locations on the Highlander structure, which is located onshore in South Louisiana where it controls rights to more than 50,000 gross acres.

Inboard Lower Tertiary/Cretaceous Oil and Gas Prospect Acreage. At June 30, 2015, McMoRan owned or controlled (through options to lease) interests in approximately 1,211 oil and gas leases in the shallow waters of the Gulf of Mexico and onshore in South Louisiana, covering approximately 208,000 gross acres (113,000 acres net to McMoRan's interests) associated with the subject interests. Approximately 5 percent, 9 percent and 41 percent of those net acres associated with the subject interests are scheduled to expire during the remainder of 2015, 2016 and 2017, respectively. Owned and optioned acreage can be retained by McMoRan through commencement or recommencement of operations or through the exercise of options, as applicable. Whether McMoRan will develop acreage that is scheduled to expire is subject to McMoRan's current and future drilling plans, over which the Royalty Trust has no control. The following table reflects the oil and gas acreage associated with the subject interests in which McMoRan owned rights to the related leases as of June 30, 2015.<sup>(a)</sup>

|                           | Developed   |           | Undeveloped |           |     |
|---------------------------|-------------|-----------|-------------|-----------|-----|
|                           | Gross Acres | Net Acres | Gross Acres | Net Acres |     |
| Offshore (federal waters) | —           | —         | 104,921     | 53,307    |     |
| Onshore South Louisiana   | 9,000       | 6,480     | 92,444      | 50,524    |     |
| Total as of June 30, 2015 | 9,000       | 6,480     | 197,365     | 103,831   | (b) |

(a) In addition, McMoRan controls interests in options covering 1,464 gross acres (2,592 net acres) associated with the subject interests.

(b) Includes 3,020 net acres that are scheduled to expire during the remainder of 2015.

The following table reflects changes in oil and gas acreage held or controlled by McMoRan and associated with the subject interests during the six-month period ended June 30, 2015.

|                               | Gross Acres |         |                       | Net Acres |         |                       |
|-------------------------------|-------------|---------|-----------------------|-----------|---------|-----------------------|
|                               | Offshore    | Onshore | Controlled by Options | Offshore  | Onshore | Controlled by Options |
| Total as of December 31, 2014 | 217,963     | 100,113 | 6,039                 | 133,205   | 55,466  | 5,877                 |
| Acquisitions                  | —           | 3,819   | (a) —                 | —         | 2,847   | (a) —                 |
| Options exercised/expired     | —           | 2,566   | (4,575)               | (b) —     | 1,839   | (3,285)               |
| Lease expirations and other   | (113,042)   | (5,054) | (c) —                 | (79,898)  | (3,148) | (c) —                 |
| Total as of June 30, 2015     | 104,921     | 101,444 | 1,464                 | 53,307    | 57,004  | 2,592                 |

(a) Acquisition of additional acreage is primarily associated with the onshore Highlander subject interest.

(b) During the six-month period ended June 30, 2015, McMoRan allowed 2,009 gross (1,446 net) optioned acres to expire and exercised on 2,566 gross (1,839 net) optioned acreage.

(c) Lease expirations and other is primarily related to the expiration or relinquishment of the leases associated with the offshore Davy Jones, Blackbeard East, Blackbeard West, Barbosa, Barataria, Blackbeard West #3, Drake, Hook,

Captain Blood, Bonnet, Queen Anne's Revenge and Calico Jack subject interests and the onshore Tortuga

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subject interest during the six-month period ended June 30, 2015, in addition to adjustments resulting from surveys and title examinations. McMoRan has informed the Trustee that it either has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander and Lineham Creek subject interests. In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area and block covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests shall become part of the subject interests.

## RESULTS OF OPERATIONS

As of June 30, 2015, only the onshore Highlander subject interest had established commercial production. In accordance with the master conveyance, in the second quarter of 2015, the Royalty Trust began receiving royalties from McMoRan. During the three and six-month periods ended June 30, 2015, the Royalty Trust received royalties from McMoRan of \$120,475 and during the three and six-month periods ended June 30, 2014, the Royalty Trust received no royalties. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is restored. During the first half of 2015, the Royalty Trust paid administrative expenses of \$341,669 (\$213,502 of which was paid during the second quarter of 2015) and during the first half of 2014, the Royalty Trust paid administrative expenses of \$370,921 (\$301,836 of which was paid during the second quarter of 2014). Administrative expenses consisted primarily of audit, legal and trustee expenses incurred in connection with the administration of the Royalty Trust and decreased during the three and six-month periods ended June 30, 2015 compared to the corresponding 2014 periods, primarily due to the timing of payments, which are recorded in accordance with the modified cash basis of accounting.

## NEW ACCOUNTING STANDARDS

The Royalty Trust does not expect recently issued accounting standards to have a significant impact on its future financial statements and disclosures.

## CAUTIONARY STATEMENT

Trustee's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are all statements other than statements of historical facts, such as any statements regarding the future financial condition of the Royalty Trust or the trading market for the royalty trust units, all statements regarding McMoRan's plans for the subject interests, the potential results of any drilling on the subject interests by the applicable operator, anticipated interests of McMoRan and the Royalty Trust in any of the subject interests, McMoRan's geologic model and the nature of the geologic trend in the Gulf of Mexico and onshore in South Louisiana discussed in this Form 10-Q, and all statements regarding any belief or understanding of the nature or potential of the subject interests. The words "anticipates," "may," "can," "plans," "believes," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be," "potential," and any similar expressions and/or statements that are not historical facts are intended to identify those assertions as forward-looking statements.

Forward-looking statements are not guarantees or assurances of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that may cause actual results to differ materially from those anticipated by the forward-looking statements include, but are not limited to, the risk that the subject interests will not produce hydrocarbons, general economic and business conditions, variations in the market demand for, and prices of, oil and natural gas, drilling results, changes in oil and natural gas reserve expectations, the potential adoption of new governmental regulations, decisions by FCX or McMoRan not to

develop the subject interests, any inability of FCX or McMoRan to develop the subject interests, damages to facilities resulting from natural disasters or accidents, fluctuations in the market price and volume of the trading market for the royalty trust units, the Royalty Trust's ability to comply with the NASDAQ listing requirements and take actions necessary to maintain listing of the royalty trust units on The NASDAQ Capital Market and other factors described in Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC, as updated by the Royalty Trust's subsequent filings with the SEC.

Investors are cautioned that test results may not be indicative of future production rates or of the amounts of hydrocarbons that a well may produce, and that many of the assumptions upon which forward-looking statements are based are likely to change after such forward-looking statements are made, which the Royalty Trust cannot control. The Royalty Trust cautions investors that it does not intend to update its forward-looking statements, notwithstanding any changes in assumptions, changes in business plans, actual experience, or other changes, and the Royalty Trust undertakes no obligation to update any forward-looking statements except as required by law.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Royalty Trust's most significant credit risk relates to adverse changes in FCX's or McMoRan's financial condition or results of operations. In the second quarter of 2015, the Royalty Trust received royalties from McMoRan of \$120,475 resulting from the onshore Highlander subject interest's production, which is paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance. Royalties received by the Royalty Trust will not result in immediate distributions to the Royalty Trust unitholders as royalties are first subject to payment of loans outstanding, administrative expenses of the Royalty Trust and the establishment of a cash reserve for payment of future liabilities as determined at the discretion of the Trustee. Royalty receipts were not sufficient to repay the Royalty Trust's existing indebtedness or to cover administrative expenses of the Royalty Trust in the first half of 2015. As a result, there were no distributions paid to Royalty Trust unitholders during such period. Additionally, there are no distributions anticipated during the remainder of 2015. In July 2015, the Highlander well was shut in for remedial workover operations to address a mechanical issue encountered in the wellbore. It is anticipated that the Royalty Trust will receive royalties from McMoRan during the third-quarter of 2015, related to second-quarter 2015 production, but that royalties will then cease until production is restored. The Royalty Trust's only other sources of liquidity are mandatory annual contributions, any loans and the required standby reserve account or letter of credit from FCX.

FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due to the extent the Royalty Trust lacks sufficient funds to pay administrative expenses. During each of the three-month periods ended June 30, 2015 and 2014, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which has been repaid as of June 30, 2015.

FCX has also agreed to provide and maintain a \$1.0 million stand-by reserve account or an equivalent letter of credit for the benefit of the Royalty Trust to enable the Trustee to draw on such reserve account or letter of credit to pay obligations of the Royalty Trust in the event that it has inadequate funds to pay its obligations at any time. Currently, with the consent of the Trustee, FCX may reduce the reserve account or substitute a letter of credit with a different face amount for the original letter of credit or any substitute letter of credit. In connection with this arrangement, FCX has provided \$1.0 million in the form of a reserve fund cash account to the Royalty Trust. The Royalty Trust has not drawn any funds from the reserve account, and FCX has not requested a reduction of such reserve account. As a result, any material adverse change in FCX's or McMoRan's financial condition or results of operations could materially and adversely affect the Royalty Trust and the underlying royalty trust units.

The Royalty Trust is a passive entity and, except for the Royalty Trust's ability to borrow from FCX as described above, the Royalty Trust is prohibited from engaging in loan transactions. The Royalty Trust periodically holds short-term investments acquired with funds held by the Royalty Trust for the payment of its administrative and other expenses. Because of the short-term nature of these investments and limitations on the types of investments which may be held by the Royalty Trust, the Royalty Trust is not subject to any material interest rate risk. The Royalty Trust does not engage in transactions in foreign currencies which could expose the Royalty Trust unitholders to foreign

currency related market risk nor does the Royalty Trust engage in any other financial derivative transactions.

The Royalty Trust's most significant market risk relates to the prices received for oil and natural gas production. Any royalties received by the Royalty Trust will be derived from the subject interests and will depend substantially on prevailing natural gas prices, and to a lesser extent oil prices. As a result, commodity prices also will affect the amount of cash flow, if any, available for distribution to the Royalty Trust unitholders. Lower oil and natural gas prices may also reduce the amount of oil and natural gas, if any, that McMoRan or the third-party

operators will be able to economically produce and may reduce the likelihood that the subject interests will be developed.

Downward pressure on oil and natural gas prices has continued in 2015. During the second quarter of 2015, the New York Mercantile Exchange natural gas price fluctuated from a low of \$2.44 per million British thermal units (MMBtu) to a high of \$3.11 per MMBtu and the West Texas Intermediate crude oil price ranged from a low of \$47.05 per barrel to a high of \$62.58 per barrel. On June 30, 2015, the spot prices for natural gas and crude oil were \$2.83 per MMBtu and \$59.47 per barrel, respectively. During the third quarter of 2015, oil prices have further decreased as the WTI crude oil price was \$45.15 per barrel on August 5, 2015.

Any additional future production will be subject to uncertainties, many of which will be beyond McMoRan's control, including the timing and flow rates associated with the initial production from discoveries, weather-related factors, shut-in or recompletion activities on any of the subject interests' related properties or on third-party owned pipelines or facilities and the state of the financial and commodity markets. Any of these factors, among others, could materially adversely affect the Royalty Trust. For more information regarding risks associated with oil and gas production and commodity price fluctuations, see Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

#### Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. The Royalty Trust has no employees, and, therefore, does not have a principal executive officer or principal financial officer. Accordingly, the Trustee is responsible for making the evaluations, assessments and conclusions required pursuant to this Item 4. The Trustee has evaluated the effectiveness of the Royalty Trust's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Form 10-Q. Based on this evaluation, the Trustee has concluded that the Royalty Trust's disclosure controls and procedures are effective as of the end of the period covered by this Form 10-Q.

Due to the nature of the Royalty Trust as a passive entity and in light of the contractual arrangements pursuant to which the Royalty Trust was created, including the provisions of (i) the amended and restated royalty trust agreement and (ii) the master conveyance, the Royalty Trust's disclosure controls and procedures necessarily rely on (A) information provided by FCX, including information relating to results of operations, the costs and revenues attributable to the subject interests and other operating and historical data, plans for future operating and capital expenditures, reserve information, information relating to projected production, and other information relating to the status and results of operations of the subject interests and the overriding royalty interests, and (B) conclusions and reports regarding reserves by the Royalty Trust's independent reserve engineers.

(b) Changes in internal control over financial reporting. During the quarter ended June 30, 2015, there has been no change in the Royalty Trust's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Royalty Trust's internal control over financial reporting. The Trustee notes for purposes of clarification that it has no authority over, and makes no statement concerning, the internal control over financial reporting of FCX.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

There are currently no pending legal proceedings to which the Royalty Trust is a party.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC.

Item 6. Exhibits.

The exhibits to this Form 10-Q are listed in the Exhibit Index appearing on page E-1 hereof.

SIGNATURE

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

Gulf Coast Ultra Deep Royalty Trust  
By: The Bank of New York Mellon  
Trust Company, N.A., as Trustee

By: /s/ Michael J. Ulrich  
Michael J. Ulrich  
Vice President

Date: August 7, 2015

The Registrant, Gulf Coast Ultra Deep Royalty Trust, has no principal executive officer, principal financial officer, controller or chief accounting officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available and none have been provided. In signing the report above, the Trustee does not imply that it has performed any such function or that any such function exists pursuant to the terms of the amended and restated royalty trust agreement, dated June 3, 2013, under which it serves.

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Gulf Coast Ultra Deep Royalty Trust

Exhibit Index

| Exhibit Number | Exhibit Title   | Filed with this Form 10-Q      |            |                 |
|----------------|---|--------------------------------|------------|-----------------|
|                |   | Incorporated by Reference Form | File No.   | Date Filed      |
| 3.1            | Composite Certificate of Trust of Gulf Coast Ultra Deep Royalty Trust   | 10-Q                           | 333-185742 | August 14, 2013 |
| 10.1           | Amended and Restated Royalty Trust Agreement of Gulf Coast Ultra Deep Royalty Trust, dated as of June 3, 2013   | 8-K                            | 333-185742 | June 4, 2013    |
| 10.2           | Master Conveyance of Overriding Royalty Interest by and between McMoRan Oil & Gas LLC and Gulf Coast Ultra Deep Royalty Trust, dated as of June 3, 2013 | 8-K                            | 333-185742 | June 4, 2013    |
| <u>31</u>      | Certification pursuant to Rule 13a-14(a)/15d-14(a)  | X                              |            |                 |
| <u>32</u>      | Certification pursuant to 18 U.S.C. Section 1350  | X                              |            |                 |

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