

Enduro Royalty Trust  
Form 10-Q  
April 28, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 2016**

**OR**

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

**For the transition period from                      to**

**Commission File Number: 001-35333**

## ENDURO ROYALTY TRUST

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**45-6259461**

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

**The Bank of New York Mellon Trust Company, N.A., Trustee**

**Global Corporate Trust**

**919 Congress Avenue, Suite 500**

**Austin, Texas**

(Address of principal executive offices)

**78701**

(Zip Code)

**1-512-236-6555**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 ☐

Accelerated filer ☒

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

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As of April 25, 2016, 33,000,000 units of beneficial interest in Enduro Royalty Trust were outstanding.

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**GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS**

The following are definitions of significant terms used in this report.

*Bbl* One barrel of 42 U.S. gallons liquid volume, used herein in reference to crude oil and other liquid hydrocarbons.

*Boe* One barrel of oil equivalent, computed on an approximate energy equivalent basis that one Bbl of crude oil equals approximately six Mcf of natural gas.

*Btu* A British Thermal Unit, a common unit of energy measurement.

*Completion* The installation of permanent equipment for the production of oil or natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

*Differential* The difference between a benchmark price of oil and natural gas, such as the NYMEX crude oil spot, and the wellhead price received.

*Field* An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

*GAAP* Accounting principles generally accepted in the United States of America.

*Gross acres or gross wells* The total acres or wells, as the case may be, in which a working interest is owned.

*MBbl* One thousand barrels of crude oil or condensate.

*MBoe* One thousand barrels of oil equivalent.

*Mcf* One thousand cubic feet of natural gas.

*MMBoe* One million barrels of oil equivalent.

*MMcf* One million cubic feet of natural gas.

*Net acres or net wells* The sum of the fractional working interests owned in gross acres or wells, as the case may be.

*Net profits interest* A nonoperating interest that creates a share in gross production from an operating or working interest in oil and natural gas properties. The share is measured by net profits from the sale of production after deducting costs associated with that production.

*NYMEX* New York Mercantile Exchange.

*NYSE* New York Stock Exchange.

*Plugging and abandonment* Activities to remove production equipment and seal off a well at the end of a well's economic life.

*Reservoir* A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

*Working interest* The right granted to the lessee of a property to explore for and to produce and own oil, natural gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**ENDURO ROYALTY TRUST**

**Statements of Assets, Liabilities and Trust Corpus**

	<b>March 31, 2016 (unaudited)</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 336,419	\$ 107,851
Net profits interest in oil and natural gas properties, net	117,526,028	120,901,651
Total assets	\$ 117,862,447	\$ 121,009,502
<b>LIABILITIES AND TRUST CORPUS</b>		
Trust corpus (33,000,000 units issued and outstanding)	\$ 117,862,447	\$ 121,009,502
Total liabilities and Trust corpus	\$ 117,862,447	\$ 121,009,502

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

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**ENDURO ROYALTY TRUST**

**Statements of Distributable Income**

**(unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Income from net profits interest	\$ 3,169,942	\$ 3,061,132
Interest and investment income	62	5
General and administrative expenses	(191,513)	(356,698)
Cash reserves (withheld) used for Trust expenses	(228,568)	206,689
Distributable income	\$ 2,749,923	\$ 2,911,128
Distributable income per unit (33,000,000 units)	\$ 0.083331	\$ 0.088216

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



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**ENDURO ROYALTY TRUST**

**Statements of Changes in Trust Corpus**

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Trust corpus, beginning of period	\$ 121,009,502	\$ 528,372,769
Cash reserves withheld (used) for Trust expenses	228,568	(206,689)
Distributable income	2,749,923	2,911,128
Distributions to unitholders	(2,749,923)	(2,911,128)
Amortization of net profits interest	(3,375,623)	(10,824,012)
Trust corpus, end of period	\$ 117,862,447	\$ 517,342,068

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

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**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**(unaudited)**

**1. TRUST ORGANIZATION AND PROVISIONS**

Enduro Royalty Trust (the "Trust") is a Delaware statutory trust formed in May 2011 pursuant to a trust agreement (the "Trust Agreement") among Enduro Resource Partners LLC ("Enduro"), as trustor, The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as trustee, and Wilmington Trust Company (the "Delaware Trustee"), as Delaware Trustee.

The Trust was created to acquire and hold for the benefit of the Trust unitholders a net profits interest representing the right to receive 80% of the net profits from the sale of oil and natural gas production from certain properties in the states of Texas, Louisiana and New Mexico held by Enduro as of the date of the conveyance of the net profits interest to the Trust (the "Net Profits Interest"). The properties in which the Trust holds the Net Profits Interest are referred to as the "Underlying Properties."

In connection with the closing of the initial public offering, on November 8, 2011, Enduro contributed the Net Profits Interest to the Trust in exchange for 33,000,000 units of beneficial interest in the Trust (the "Trust Units"). Through the initial public offering in 2011 and a secondary offering in 2013, Enduro has sold a total of 24,400,000 Trust Units. As of March 31, 2016, Enduro owned 8,600,000 Trust Units, or 26% of the issued and outstanding Trust Units.

The Net Profits Interest is passive in nature and neither the Trust nor the Trustee has any management control over or responsibility for costs relating to the operation of the Underlying Properties. The Trust Agreement provides, among other provisions, that:

- the Trust's business activities are limited to owning the Net Profits Interest and any activity reasonably related to such ownership, including activities required or permitted by the terms of the Conveyance of Net Profits Interest, dated effective as of July 1, 2011 (as supplemented to date, the "Conveyance"). As a result, the Trust is not permitted to acquire other oil and natural gas properties or net profits interests or otherwise to engage in activities beyond those necessary for the conservation and protection of the Net Profits Interest;
- the Trust may dispose of all or any material part of the assets of the Trust (including the sale of the Net Profits Interests) if approved by at least 75% of the outstanding Trust Units;

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- the Trustee will make monthly cash distributions to unitholders (Note 5);
- the Trustee may create a cash reserve to pay for future liabilities of the Trust;
- the Trustee may authorize the Trust to borrow money to pay administrative or incidental expenses of the Trust that exceed its cash on hand and available reserves. No further distributions will be made to Trust unitholders until such amounts borrowed are repaid; and
- the Trust is not subject to any pre-set termination provisions based on a maximum volume of oil or natural gas to be produced or the passage of time. The Trust will dissolve upon the earliest to occur of the following:
  - the Trust, upon approval of the holders of at least 75% of the outstanding Trust Units, sells the Net Profits Interest;
  - the annual cash proceeds received by the Trust attributable to the Net Profits Interest are less than \$2 million for each of any two consecutive years;
  - the holders of at least 75% of the outstanding Trust Units vote in favor of dissolution; or
  - the Trust is judicially dissolved.

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**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS - Continued**

**(unaudited)**

**2. BASIS OF PRESENTATION**

The accompanying Statement of Assets, Liabilities and Trust Corpus as of December 31, 2015, which has been derived from audited financial statements, and the unaudited interim financial statements as of March 31, 2016 and for the three months ended March 31, 2016 and 2015 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, certain information and disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. Therefore, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the 2015 Annual Report on Form 10-K ).

In the opinion of the Trustee, the accompanying unaudited financial statements reflect all adjustments that are necessary for a fair presentation of the interim periods presented and include all the disclosures necessary to make the information presented not misleading.

The preparation of financial statements requires the Trustee to make estimates and assumptions that affect reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Although the Trustee believes that these estimates are reasonable, actual results could differ from those estimates.

The Trust uses the modified cash basis of accounting to report Trust receipts of income from the Net Profits Interest and payments of expenses incurred. The Net Profits Interest represents the right to receive revenues (oil and natural gas sales), less direct operating expenses (lease operating expenses and production and property taxes) and development expenses of the Underlying Properties, multiplied by 80%. Cash distributions of the Trust are made based on the amount of cash received by the Trust pursuant to terms of the Conveyance creating the Net Profits Interest.

Under the terms of the Conveyance, the monthly Net Profits Interest calculation includes oil and natural gas revenues received during the relevant month. Monthly operating expenses and capital expenditures represent estimated incurred expenses and, as a result, represent accrued expenses as well as expenses paid during the period.

The financial statements of the Trust are prepared on the following basis:

(a) Income from Net Profits Interest is recorded when distributions are received by the Trust;

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(b) Distributions to Trust unitholders are recorded when paid by the Trust;

(c) Trust general and administrative expenses (which includes the Trustee's fees as well as accounting, engineering, legal, and other professional fees) are recorded when paid;

(d) Cash reserves for Trust expenses may be established by the Trustee for certain future expenditures that would not be recorded as contingent liabilities under accounting principles generally accepted in the United States of America ( GAAP );

(e) Amortization of the Net Profits Interest in oil and natural gas properties is calculated on a unit-of-production basis and is charged directly to the Trust corpus; and

(f) The Net Profits Interest in oil and natural gas properties is periodically assessed whenever events or circumstances indicate that the aggregate value may have been impaired below its total capitalized cost based on the Underlying Properties. If an impairment loss is indicated by the carrying amount of the assets exceeding the sum of the undiscounted expected future net cash flows of the Net Profits Interest, then an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its estimated fair value determined using discounted cash flows.

The financial statements of the Trust differ from financial statements prepared in accordance with GAAP because revenues are not accrued in the month of production; certain cash reserves may be established for contingencies which would not be accrued in financial statements prepared in accordance with GAAP; general and administrative expenses are recorded when paid instead of when incurred; and amortization of the net profits interest calculated on a unit-of-production basis is charged directly to trust corpus instead of as an expense. While these statements differ from financial statements prepared in accordance with GAAP, the modified cash basis of reporting revenues, expenses, and distributions is considered to be the most meaningful because monthly distributions to the Trust unitholders are based on net cash receipts.

This comprehensive basis of accounting other than GAAP corresponds to the accounting permitted for royalty trusts by the U.S. SEC as specified by Staff Accounting Bulletin Topic 12:E, *Financial Statements of Royalty Trusts*.

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**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS - Continued**

**(unaudited)**

***New Accounting Pronouncements***

As the Trust's financial statements are prepared on the modified cash basis, most accounting pronouncements are not applicable to the Trust's financial statements. No new accounting pronouncements have been adopted or issued that would impact the financial statements of the Trust.

**3. NET PROFITS INTEREST IN OIL AND NATURAL GAS PROPERTIES**

The Net Profits Interest in oil and natural gas properties was recorded at its fair value on the date of conveyance. Amortization of the Net Profits Interest in oil and natural gas properties is calculated on a unit-of-production basis based on the Underlying Properties' production and reserves. The reserves upon which the amortization rate is based are quantity estimates which are subject to numerous uncertainties inherent in the estimation of proved reserves. The volumes considered to be commercially recoverable fluctuate with changes in commodity prices and operating costs. These estimates are expected to change as additional information becomes available in the future. Downward revisions in proved reserves may result in an increased rate of amortization. Amortization is charged directly to the Trust corpus balance and does not affect the cash earnings of the Trust. Accumulated amortization as of March 31, 2016 and December 31, 2015 was \$241,215,130 and \$237,839,507, respectively.

The Net Profits Interest is periodically assessed for impairment whenever events or circumstances indicate that the current fair value based on expected future cash flows of the Underlying Properties may be less than the carrying value of the Net Profits Interest. While the Trust did not record an impairment during the quarters ended March 31, 2016 or 2015, future downward revisions in actual production volumes relative to current forecasts, higher than expected operating costs, or lower than anticipated market pricing could result in recognition of impairment in future periods.

**4. INCOME TAXES**

***Federal Income Taxes***

For federal income tax purposes, the Trust is a grantor trust and therefore is not subject to tax at the trust level. Trust unitholders are treated as owning a direct interest in the assets of the Trust, and each Trust unitholder is taxed directly on his or her pro rata share of the income and gain attributable to the assets of the Trust and entitled to claim his or her pro rata share of the deductions and expenses attributable to the assets of the Trust. The income of the Trust is deemed to have been received or accrued by each unitholder at the time such income is received or accrued by

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the Trust rather than when distributed by the Trust.

The deductions of the Trust consist of severance taxes and administrative expenses. In addition, each unitholder is entitled to depletion deductions because the Net Profits Interest constitutes economic interests in oil and natural gas properties for federal income tax purposes. Each unitholder is entitled to amortize the cost of the Trust units through cost depletion over the life of the Net Profits Interest or, if greater, through percentage depletion. Unlike cost depletion, percentage depletion is not limited to a unitholder's depletable tax basis in the Trust units. Rather, a unitholder is entitled to percentage depletion as long as the applicable Underlying Properties generate gross income.

Some Trust units are held by a middleman, as such term is broadly defined in U.S. Treasury Regulations (and includes custodians, nominees, certain joint owners, and brokers holding an interest for a custodian in street name). Therefore, the Trustee considers the Trust to be a non-mortgage widely held fixed investment trust ( "WHFIT" ) for U.S. federal income tax purposes. The Bank of New York Mellon Trust Company, N.A., 919 Congress Avenue, Austin, Texas 78701, telephone number (512) 236-6545, is the representative of the Trust that will provide tax information in accordance with applicable U.S. Treasury Regulations governing the information reporting requirements of the Trust as a WHFIT. Tax information is also posted by the Trustee at [www.enduroroyaltytrust.com](http://www.enduroroyaltytrust.com). Notwithstanding the foregoing, the middlemen holding units on behalf of unitholders, and not the Trustee of the Trust, are solely responsible for complying with the information reporting requirements under the U.S. Treasury Regulations with respect to such units, including the issuance of IRS Forms 1099 and certain written tax statements. Unitholders whose units are held by middlemen should consult with such middlemen regarding the information that will be reported to them by the middlemen with respect to the Trust units.

The tax consequences to a unitholder of ownership of Trust units will depend in part on the unitholder's tax circumstances. Unitholders should consult their tax advisors about the federal tax consequences relating to owning the Trust units.

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**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS - Continued**

**(unaudited)**

***State Taxes***

The Trust's revenues are from sources in the states of Louisiana, New Mexico and Texas. Because it distributes all of its net income to unitholders, the Trust is not taxed at the trust level in Louisiana or New Mexico. Although the Trust does not owe tax, the Trustee is required to file a return with Louisiana reflecting the income and deductions of the Trust attributable to properties located in that state. Texas does not impose a state income tax, so the Trust's income is not subject to income tax at the trust level in Texas. Louisiana and New Mexico presently have income taxes which tax income of nonresidents from real property located within that state. Louisiana and New Mexico also impose a corporate income tax which may apply to unitholders organized as corporations.

Texas imposes a franchise tax at a rate of 0.75% on gross revenues less certain deductions for returns originally due on or after January 1, 2016, as specifically set forth in the Texas franchise tax statutes. Entities subject to tax generally include trusts unless otherwise exempt. Trusts that receive at least 90% of their federal gross income from designated passive sources, including royalties from mineral properties and other income from other non-operating mineral interests, and do not receive more than 10% of their income from operating an active trade or business, generally are exempt from the Texas franchise tax as passive entities. Although the Trust is intended to be exempt from Texas franchise tax at the trust level as a passive entity, each unitholder that is considered a taxable entity under the Texas franchise tax would generally be required to include its portion of Trust net income in its own Texas franchise tax computation.

Each unitholder should consult his or her own tax advisor regarding state tax requirements, if any, applicable to such person's ownership of Trust units.

**5. DISTRIBUTIONS TO UNITHOLDERS**

Each month, the Trustee determines the amount of funds available for distribution to the Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Net Profits Interest and other sources (such as interest earned on any amounts reserved by the Trustee) that month, over the Trust's liabilities for that month, subject to adjustments for changes made by the Trustee during the month in any cash reserves established for future liabilities of the Trust. Distributions are made to the holders of Trust units as of the applicable record date (generally the last business day of each calendar month) and are payable on or before the 10th business day after the record date.

The following table provides information regarding the Trust's distributions paid during the three months ended March 31, 2016 and 2015:



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Declaration Date	Record Date	Payment Date	Distribution per Unit	
Three Months Ended March 31, 2016:				
December 18, 2015	December 31, 2015	January 15, 2016	\$	0.029187
January 19, 2016	January 29, 2016	February 12, 2016	\$	0.029839
February 19, 2016	February 29, 2016	March 14, 2016	\$	0.024305
			\$	0.083331
Three Months Ended March 31, 2015:				
December 19, 2014	December 31, 2014	January 15, 2015	\$	0.065822
January 20, 2015	January 30, 2015	February 13, 2015	\$	0.006598
February 17, 2015	February 27, 2015	March 13, 2015	\$	0.015796
			\$	0.088216

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**ENDURO ROYALTY TRUST**

**NOTES TO FINANCIAL STATEMENTS - Continued**

**(unaudited)**

**6. DEVELOPMENT EXPENSE RESERVE**

During the first quarter of 2016, Enduro established a \$750,000 reserve from net profits for approved 2016 development expenses, which is held by Enduro and not reflected in the accompanying Statement of Assets, Liabilities and Trust Corpus as of March 31, 2016. During the first quarter of 2016, there were not any development expenses applied against the reserve and as of March 31, 2016, the total reserve was \$750,000. Prior to 2016, Enduro had not established a reserve for development expenses.

In addition, during the first quarter of 2016, the Trustee withheld \$250,000 from calculated net profits for anticipated future liabilities of the Trust, which is included in Cash and cash equivalents as of March 31, 2016 in the accompanying Statement of Assets, Liabilities and Trust Corpus.

**7. TRUSTEE FEES**

Under the terms of the Trust Agreement, the Trust pays an administrative fee of \$200,000 per year to the Trustee and an annual fee of \$2,000 to the Delaware Trustee. During the three months ended March 31, 2016 and 2015, the Trust paid \$50,000 in each period to the Trustee pursuant to the terms of the Trust Agreement. The Trust did not pay any fees to the Delaware Trustee during the three months ended March 31, 2016 or 2015.

**8. SUBSEQUENT EVENTS**

***Permian Basin Operator Adjustment and Impact on Future Distributions***

As previously disclosed, Enduro received a letter in July 2015 from one of its operators in the Permian Basin pertaining to 480,000 Mcf of natural gas for which the operator had paid Enduro on the properties underlying the Trust but for which Enduro had only produced 240,000 Mcf. Subsequently, the operator and Enduro agreed that the value of the overpaid production, totaling \$1.1 million to the Underlying Properties, would be recouped with proceeds from future production.

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The recoupment began during the second quarter of 2016, and during the recoupment, Enduro will not receive payment and future distribution calculations will not include any volumes or revenues from any of the operator's properties until the \$1.1 million is fully recovered. The operator's properties contributed approximately 530 Bbls and \$24,000 related to oil production and 4,100 Mcf and \$8,500 related to natural gas production to the distribution declared on February 19, 2016.

### *Distributions Paid or Declared*

On April 14, 2016, the distribution of \$0.009855 per unit, which was declared on March 21, 2016, was paid to Trust unitholders owning units as of March 31, 2016. The distribution was net of \$100,000 withheld by Enduro to increase the previously established reserve for approved development expenses. As of the date of filing of this report, Enduro has established a total reserve of \$850,000 for approved development expenses.

On April 19, 2016, the Trust declared a distribution of \$0.007279 per unit to unitholders of record as of April 29, 2016. The distribution is expected to be paid to unitholders on May 13, 2016.

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

References to the Trust in this document refer to Enduro Royalty Trust while references to Enduro in this document refer to Enduro Resource Partners LLC.

The following review of the Trust's financial condition and results of operations should be read in conjunction with the financial statements and notes thereto, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Trust's 2015 Annual Report on Form 10-K. The Trust's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other filings with the SEC are available on the SEC's website at [www.sec.gov](http://www.sec.gov).

**Forward-Looking Statements**

This Form 10-Q includes 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. All statements other than statements of historical fact included in this Form 10-Q, including without limitation the statements under this Trustee's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. Such statements may be influenced by factors that could cause actual outcomes and results to differ materially from those projected. No assurance can be given that such expectations will prove to have been correct. When used in this document, the words believes, expects, anticipates, intends or similar expressions are intended to identify such forward-looking statements. The following important factors, in addition to those discussed elsewhere in this Form 10-Q, could affect the future results of the energy industry in general, and Enduro and the Trust in particular, and could cause actual results to differ materially from those expressed in such forward-looking statements:

- risks associated with the drilling and operation of oil and natural gas wells;
- the amount of future direct operating expenses and development expenses;
- the effect of existing and future laws and regulatory actions;
- the effect of changes in commodity prices or alternative fuel prices;
- the December 31, 2013 maturity of all hedge contracts previously entered into by Enduro related to the Underlying Properties and the prohibition on the Trust's entry into any new hedging arrangements under the terms of the Conveyance;

- conditions in the capital markets;
- competition from others in the energy industry;
- uncertainty of estimates of oil and natural gas reserves and production; and
- cost inflation.

You should not place undue reliance on these forward-looking statements. All forward-looking statements speak only as of the date of this Form 10-Q. The Trust does not undertake any obligation to release publicly any revisions to the forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events, unless the securities laws require us to do so.

This Form 10-Q describes other important factors that could cause actual results to differ materially from expectations of Enduro and the Trust, including under the caption Risk Factors. All forward-looking statements in this report and all subsequent written and oral forward-looking statements attributable to Enduro or the Trust or persons acting on behalf of Enduro or the Trust are expressly qualified in their entirety by such factors. The Trust assumes no obligation, and disclaims any duty, to update these forward-looking statements.

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**Overview**

Enduro Royalty Trust is a statutory trust created in May 2011 and its initial public offering was completed in November 2011. The Trust's only asset and source of income is the Net Profits Interest, which entitles the Trust to receive 80% of the net profits from oil and natural gas production from the Underlying Properties. The Net Profits Interest is passive in nature and neither the Trust nor the Trustee has any management control over or responsibility for costs relating to the operation of the Underlying Properties. Additionally, third parties operate substantially all of the wells on the Underlying Properties and, therefore, Enduro is not in a position to control the timing of development efforts, associated costs, or the rate of production of the reserves.

The Trust is required to make monthly cash distributions of substantially all of its monthly cash receipts, after deducting the Trust's administrative expenses, to holders of record (generally the last business day of each calendar month) on or before the 10<sup>th</sup> business day after the record date. The Net Profits Interest is entitled to a share of the profits from and after July 1, 2011 attributable to production occurring on or after June 1, 2011. The amount of Trust revenues and cash distributions to Trust unitholders depends on, among other things:

- oil and natural gas sales prices;
- volumes of oil and natural gas produced and sold attributable to the Underlying Properties;
- production and development costs;
- price differentials;
- potential reductions or suspensions of production;
- the amount and timing of Trust administrative expenses; and
- the establishment, increase, or decrease of reserves for approved development expenses or future liabilities of the Trust.

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Generally, Enduro receives cash payment for oil production 30 to 60 days after it is produced and for natural gas production 60 to 90 days after it is produced.

### *Outlook*

Oil and natural gas prices have remained depressed since declining significantly in the second half of 2014. The Trust's revenues and distributable income available to unitholders have been and will continue to be adversely affected if commodity prices remain at current levels or decline further.

Development activity has decreased significantly on the Underlying Properties due to the continued low commodity price environment. The operators of the properties underlying the Trust continue to evaluate planned capital expenditures during 2016, and Enduro anticipates total capital expenditures included in 2016 distributions to be considerably less than they were in 2015. Based on currently available information, Enduro anticipates 2016 capital expenditures to range from \$4 million to \$6 million attributable to the properties in which the Trust owns a net profits interest, or \$3 million to \$5 million net to the Trust's 80% net profits interest.

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## Results of Operations

*Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015*

The Trust's net profits income consists of monthly net profits attributable to the Net Profits Interest, which was determined as shown in the following table:

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
<b>Gross profits:</b>			
Oil sales	\$ 9,019,640	\$ 18,745,333	(52)%
Natural gas sales	3,199,287	5,285,082	(39)%
Total	12,218,927	24,030,415	(49)%
<b>Costs:</b>			
<b>Direct operating expenses:</b>			
Lease operating expenses	6,333,000	8,876,000	(29)%
Compression, gathering and transportation	995,000	842,000	18%
Production, ad valorem and other taxes	405,000	1,700,000	(76)%
Development expenses	(414,000)	8,786,000	(105)%
Total	7,319,000	20,204,000	(64)%
Net profits	\$ 4,899,927	\$ 3,826,415	28%
Percentage allocable to Net Profits Interest	80%	80%	
Net profits allocable to Net Profits Interest	\$ 3,919,942	\$ 3,061,132	28%
Less: Enduro reserve withheld for approved development expenses	750,000		100%
Income from Net Profits Interest	\$ 3,169,942	\$ 3,061,132	4%
Less: Trust general and administrative expenses and cash withheld for expenses	420,019	150,004	180%
Distributable income	\$ 2,749,923	\$ 2,911,128	(6)%

The following table displays oil and natural gas sales volumes and average prices from the Underlying Properties, representing the amounts included in the net profits calculation for distributions paid during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
<b>Underlying Properties Production Volumes:</b>			
Oil (Bbls)	208,533	242,369	(14)%
Natural Gas (Mcf)	1,308,632	1,293,545	1%
Combined (Boe)	426,638	457,960	(7)%
<b>Average Prices:</b>			
Oil - NYMEX (September-November) (\$/Bbl)	\$ 44.87	\$ 84.40	(47)%
Differential	\$ (1.62)	\$ (7.06)	(77)%
Oil prices realized (\$/Bbl)	\$ 43.25	\$ 77.34	(44)%



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Natural gas - NYMEX (August-October) (\$/Mcf)	\$	2.59	\$	3.87	(33)%
Differential	\$	(0.15)	\$	0.22	(168)%
Natural gas prices realized (\$/Mcf)	\$	2.44	\$	4.09	(40)%

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Income from Net Profits Interest for the three months ended March 31, 2016 is calculated from the following:

- oil sales primarily related to oil produced from the Underlying Properties from September 2015 through November 2015;
- natural gas sales primarily related to natural gas produced from the Underlying Properties from August 2015 through October 2015; and
- direct operating and development expenses primarily related to expenses incurred from October 2015 to December 2015.

Net profits attributable to the Underlying Properties for the three months ended March 31, 2016 were \$4.9 million compared to \$3.8 million for the three months ended March 31, 2015. The \$1.1 million increase was primarily due to the following items:

- Oil sales decreased \$9.7 million due to lower realized prices, which reduced oil sales by \$7.1 million, and reduced sales volumes, which decreased oil sales by \$2.6 million. The average oil price received decreased 44% primarily due to a 47% decrease in the average NYMEX oil price for the relevant production months. Oil sales volumes decreased 14% primarily as a result of natural production declines, which included high initial rates of decline on new wells in the Permian Basin. Production from wells drilled as part of the 2014 Rocker B drilling program declined approximately 18,000 Bbls from 28,000 Bbls included in distributions paid during the first quarter of 2015 to 10,000 Bbls included in distributions paid during the first quarter of 2016.
- Development expenses decreased \$9.2 million primarily due to a \$7.1 million decrease in capital activity in the Permian Basin Wolfcamp drilling program operated by Pioneer Natural Resources. In addition, capital projects and development activity have decreased due to the current low commodity price environment. For distributions paid during the first quarter of 2016, capital adjustments, resulting from projects where actual costs incurred were less than projected, more than offset capital expenditures incurred and increased net profits by \$0.4 million.
- Lease operating expenses decreased \$2.5 million (\$4.54 per Boe) primarily due to decreases in workover and maintenance activity on mature fields in the Permian Basin, the costs of oilfield goods and services, and reduced plugging and abandonment costs.
- Natural gas sales decreased \$2.1 million due almost entirely to lower realized prices. The average natural gas price received decreased 40% due to a 33% decrease in the average NYMEX natural gas price and reduced sales price realizations for the relevant production months. Sales price realizations have been impacted by a reduction in natural gas liquids ( NGLs ) pricing, which is included as part of the natural gas pricing on non-operated properties.

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Historically, natural gas differentials have been positive from the impact of NGL pricing upgrades as certain NGL pricing correlates with oil prices. Natural gas sales volumes were consistent with the prior period primarily due to the timing of cash receipts and the inclusion of approximately \$0.4 million and 108,000 Mcf of withheld revenue payments during the first quarter of 2016. As previously disclosed, one operator in the Elm Grove field of the East Texas/North Louisiana region had been withholding revenue payments since November 2014 production in settlement of unused firm capacity reservation fees that were retroactively charged back to January 2012.

- Production, ad valorem and other taxes decreased \$1.3 million primarily due to an \$11.8 million decrease in total sales revenues and downward adjustments to ad valorem expense in 2016 as 2015 actual ad valorem expenses were lower than expected.

During the three months ended March 31, 2016, Enduro established a \$750,000 reserve from net profits for approved 2016 development expenses, and the Trust withheld \$0.4 million and paid \$0.2 million for general and administrative expenses. Of the \$0.4 million withheld by the Trust, \$250,000 was withheld for anticipated future liabilities of the Trust. Expenses paid during the period primarily consisted of fees for the preparation of 2015 tax information for unitholders, the Trust's monthly press releases and 2015 Annual Report on Form 10-K; NYSE listing fees; and Trustee fees. For the three months ended March 31, 2015, the Trust withheld \$0.2 million and paid \$0.4 million for general and administrative expenses.

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**Liquidity and Capital Resources**

The Trust's principal sources of liquidity are cash flow generated from the Net Profits Interest and borrowing capacity under the letter of credit described below. Other than Trust administrative expenses, including any reserves established by the Trustee for future liabilities, the Trust's only use of cash is for distributions to Trust unitholders. Available funds are the excess cash, if any, received by the Trust from the Net Profits Interest and other sources (such as interest earned on any amounts reserved by the Trustee) in any given month, over the Trust's expenses paid for that month. Available funds are reduced by any cash the Trustee determines to hold as a reserve against future expenses.

The Trustee may create a cash reserve to pay for future liabilities of the Trust. If the Trustee determines that the cash on hand and the cash to be received are, or will be, insufficient to cover the Trust's liabilities, the Trustee may authorize the Trust to borrow money to pay administrative or incidental expenses of the Trust that exceed cash held by the Trust. The Trustee may authorize the Trust to borrow from any person, including the Trustee or the Delaware Trustee or an affiliate thereof, although none of the Trustee, the Delaware Trustee or any affiliate thereof intends to lend funds to the Trust. The Trustee may also cause the Trust to mortgage its assets to secure payment of the indebtedness. The terms of such indebtedness and security interest, if funds were to be loaned by the entity serving as Trustee or Delaware Trustee or an affiliate thereof, would be similar to the terms which such entity would grant to a similarly situated commercial customer with whom it did not have a fiduciary relationship. In addition, Enduro has provided the Trust with a \$1 million letter of credit to be used by the Trust if its cash on hand (including available cash reserves) is insufficient to pay ordinary course administrative expenses. Further, if the Trust requires more than the \$1 million under the letter of credit to pay administrative expenses, Enduro has agreed to loan funds to the Trust necessary to pay such expenses. Any loan made by Enduro to the Trust would be evidenced by a written promissory note, be on an unsecured basis, and have terms that are no less favorable to Enduro than those that would be obtained in an arm's length transaction between Enduro and an unaffiliated third party. If the Trust borrows funds or draws on the letter of credit, no further distributions will be made to Trust unitholders until such amounts borrowed or drawn are repaid. Except for the foregoing, the Trust has no source of liquidity or capital resources. The Trustee has no current plans to authorize the Trust to borrow money. At March 31, 2016 and December 31, 2015, the Trust held cash of \$336,419 and \$107,851, respectively, for future Trust expenses. Since its formation, the Trust has not borrowed any funds and no amounts have been drawn on the letter of credit.

During the first quarter of 2016, Enduro established a \$750,000 reserve from net profits for approved 2016 development expenses. The Trust, in its discretion, also withheld \$250,000 for anticipated future liabilities of the Trust. During the second quarter of 2016, Enduro increased the previously established reserve for approved development expenses by \$100,000. As of the date of filing of this report, Enduro has established a total reserve of \$850,000 for approved development expenses.

Cash held by the Trustee as a reserve against future liabilities or for distribution at the next distribution date may be held in a noninterest-bearing account or may be invested in:

- interest-bearing obligations of the United States government;
- money market funds that invest only in United States government securities;
- repurchase agreements secured by interest-bearing obligations of the United States government; or

- bank certificates of deposit.

The Trust pays the Trustee an administrative fee of \$200,000 per year. The Trust pays the Delaware Trustee an annual fee of \$2,000. The Trust also incurs, either directly or as a reimbursement to the Trustee, legal, accounting, tax and engineering fees, printing costs and other expenses that are deducted by the Trust before distributions are made to Trust unitholders. The Trust also is responsible for paying other expenses incurred as a result of being a publicly traded entity, including costs associated with annual and quarterly reports to Trust unitholders, tax return and Form 1099 preparation and distribution, NYSE listing fees, independent auditor fees and registrar and transfer agent fees.

The Trust does not have any transactions, arrangements or other relationships with unconsolidated entities or persons that could materially affect the Trust's liquidity or the availability of capital resources.

#### **Distributions Declared After Quarter End**

On April 19, 2016, the Trust declared a distribution of \$0.007279 per unit to unitholders of record as of April 29, 2016. The distribution is expected to be paid to unitholders on May 13, 2016.

#### **Off-Balance Sheet Arrangements**

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

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**New Accounting Pronouncements**

As the Trust's financial statements are prepared on the modified cash basis, most accounting pronouncements are not applicable to the Trust's financial statements. No new accounting pronouncements have been adopted or issued that would impact the financial statements of the Trust.

**Critical Accounting Policies and Estimates**

Please read Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates of the Trust's 2015 Annual Report on Form 10-K for additional information regarding the Trust's critical accounting policies and estimates. There were no material changes to the Trust's critical accounting policies or estimates during the three months ended March 31, 2016.

**Subsequent Events**

***Permian Basin Operator Adjustment and Impact on Future Distributions***

As previously disclosed, Enduro received a letter in July 2015 from one of its operators in the Permian Basin pertaining to 480,000 Mcf of natural gas for which the operator had paid Enduro on the properties underlying the Trust but for which Enduro had only produced 240,000 Mcf. Subsequently, the operator and Enduro agreed that the value of the overpaid production, totaling \$1.1 million to the Underlying Properties, would be recouped with proceeds from future production.

The recoupment began during the second quarter of 2016, and during the recoupment, Enduro will not receive payment and future distribution calculations will not include any volumes or revenues from any of the operator's properties until the \$1.1 million is fully recovered. The operator's properties contributed approximately 530 Bbls and \$24,000 related to oil production and 4,100 Mcf and \$8,500 related to natural gas production to the last distribution declared on February 19, 2016.

***Distributions Paid***

On April 14, 2016, the distribution of \$0.009855 per unit, which was declared on March 21, 2016, was paid to Trust unitholders owning units as of March 31, 2016. The distribution was net of \$100,000 withheld by Enduro to increase the previously established reserve for approved development expenses. As of the date of filing of this report, Enduro has established a total reserve of \$850,000 for approved development expenses.



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

The Trust's only asset and source of income is the Net Profits Interest, which entitles the Trust to receive 80% of the net profits from oil and natural gas production from the Underlying Properties. Commodity prices affect the amount of cash flow available for distribution to Trust unitholders, and lower prices may reduce the amount of oil and natural gas that Enduro and its third party operators can economically produce. Consequently, the Trust is exposed to market risk from fluctuations in oil and natural gas prices.

The terms of the Net Profits Interest prohibit Enduro from entering into hedging arrangements burdening the Trust, excluding the hedges existing prior to the date of the conveyance. All hedge contracts existing prior to the date of the conveyance had matured as of December 31, 2013. Accordingly, the Trust is no longer subject to risks related to derivative contracts, and therefore the amount of future cash distributions will be subject to the full impact of fluctuations due to changes in oil and natural gas prices as noted above.

The Trust is a passive entity, and the Trust's ability to engage in borrowing transactions is limited to funds necessary to pay expenses, liabilities and obligations of the Trust that cannot be paid out of cash held by the Trust. Since its formation, the Trust has not borrowed any funds. In addition, the terms of the Net Profits Interest prohibit the Trust from entering into any investments other than investing cash on hand in specific short-term cash investments. Due to the limited nature of its borrowing and investing activities, the Trust is not subject to material interest rate market risk.

**Item 4.                      *Controls and Procedures.***

*Evaluation of Disclosure Controls and Procedures*

The Trustee conducted an evaluation of the Trust's disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on this evaluation, the Trustee has concluded that the disclosure controls and procedures of the Trust were effective, as of the end of the period covered by this report, in ensuring that information required to be disclosed by the Trust in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Trustee to allow timely decisions regarding required disclosure.

Due to the nature of the Trust as a passive entity and in light of the contractual arrangements pursuant to which the Trust was created, including the provisions of (i) the Trust Agreement and (ii) the Conveyance, the Trustee's disclosure controls and procedures related to the Trust necessarily rely on (A) information provided by Enduro, including information relating to results of operations, the costs and revenues attributable to the Trust's interest under the Conveyance and other operating and historical data, plans for future operating and capital expenditures, reserve information, information relating to projected production, and other information relating to the status and results of operations of the Underlying Properties and the Net Profits Interest, and (B) conclusions and reports regarding reserves by the Trust's independent reserve engineers.



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### *Changes in Internal Control over Financial Reporting*

As of the end of the period covered by this report, there were no changes in the Trust's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting. The Trustee notes for purposes of clarification that it has no authority over, and makes no statement concerning, the internal control over financial reporting of Enduro.

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**PART II OTHER INFORMATION**

**Item 1A.            *Risk Factors.***

Risk factors relating to the Trust are discussed in Item 1A of the Trust's 2015 Annual Report on Form 10-K. No material change to such risk factors occurred during the three months ended March 31, 2016.

**Item 6.            *Exhibits.***

The exhibits listed in the accompanying index to exhibits are filed as part of this Form 10-Q.

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**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) 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.

**ENDURO ROYALTY TRUST**

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

By: /s/ SARAH NEWELL  
Sarah Newell  
*Vice President and Trust Officer*

Date: April 28, 2016

The Registrant, Enduro Royalty Trust, has no principal executive officer, principal financial officer, board of directors or persons performing similar functions. Accordingly, no additional signatures are available, and none have been provided. In signing the report above, the Trustee does not imply that it has performed any such function or that such function exists pursuant to the terms of the Trust Agreement under which it serves.

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**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Agreement and Plan of Merger of Enduro Royalty Trust and Enduro Texas LLC, dated as of November 3, 2011, by and between the Bank of New York Mellon Trust Company, N.A., as Trustee of Enduro Royalty Trust, and Enduro Texas LLC. (Incorporated herein by reference to Exhibit 1.2 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
3.1	Certificate of Trust of Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 3.3 to the Registration Statement on Form S-1, filed on May 16, 2011 (Registration No. 333-174225))
3.2	Amended and Restated Trust Agreement of Enduro Royalty Trust, dated November 3, 2011, among Enduro Resource Partners LLC, The Bank of New York Mellon Trust Company, N.A., as Trustee of Enduro Royalty Trust, and Wilmington Trust Company, as Delaware Trustee of Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
4.1	Registration Rights Agreement, dated as of November 8, 2011, by and between Enduro Resource Partners LLC and Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
4.2	Amendment No. 1 to Registration Rights Agreement, dated as of November 8, 2012, by and between Enduro Resource Partners LLC and Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 4.2 to our Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013 (File No. 1-35333))
10.1	Conveyance of Net Profits Interest, dated November 8, 2011, by and between Enduro Operating LLC and Enduro Texas LLC. (Incorporated herein by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
10.2	Supplement to Conveyance of Net Profits Interest, dated November 8, 2011, from Enduro Operating LLC, Enduro Texas LLC and the Bank of New York Mellon Trust Company, N.A., as Trustee of Enduro Royalty Trust. (Incorporated herein by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on November 8, 2011 (File No. 1-35333))
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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\* Filed herewith.