

Enduro Royalty Trust
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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)

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)

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 | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |

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 May 6, 2015, 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.

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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.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1.** *Financial Statements.***ENDURO ROYALTY TRUST****Statements of Assets, Liabilities and Trust Corpus**

| | March 31, 2015 (unaudited) | December 31, 2014 |
|---|---|------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 42,379 | \$ 249,068 |
| Net profits interest in oil and natural gas properties, net | 517,299,689 | 528,123,701 |
| Total assets | \$ 517,342,068 | \$ 528,372,769 |
| LIABILITIES AND TRUST CORPUS | | |
| Trust corpus (33,000,000 units issued and outstanding) | \$ 517,342,068 | \$ 528,372,769 |
| Total liabilities and Trust corpus | \$ 517,342,068 | \$ 528,372,769 |

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

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ENDURO ROYALTY TRUST

Statements of Distributable Income

(unaudited)

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------|
| | 2015 | 2014 |
| Income from net profits interest | \$ 3,061,132 | \$ 11,863,431 |
| Interest and investment income | 5 | |
| General and administrative expenses | (356,698) | (188,350) |
| Cash reserves used (withheld) for Trust expenses | 206,689 | (36,643) |
| Distributable income | \$ 2,911,128 | \$ 11,638,438 |
| Distributable income per unit (33,000,000 units) | \$ 0.088216 | \$ 0.352680 |

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)

| | Three Months Ended March 31, | |
|--|-------------------------------------|----------------|
| | 2015 | 2014 |
| Trust corpus, beginning of period | \$ 528,372,769 | \$ 571,396,467 |
| Cash reserves withheld (used) for Trust expenses | (206,689) | 36,643 |
| Distributable income | 2,911,128 | 11,638,438 |
| Distributions to unitholders | (2,911,128) | (11,638,438) |
| Amortization of net profits interest | (10,824,012) | (11,333,846) |
| Trust corpus, end of period | \$ 517,342,068 | \$ 560,099,264 |

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, 2015, 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;
- the Trustee will make monthly cash distributions to unitholders (Note 6);

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- 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, 2014, which has been derived from audited financial statements, and the unaudited interim financial statements as of March 31, 2015 and for the three months ended March 31, 2015 and 2014 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, 2014 (the 2014 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 plus any payments made or net payments received in connection with the settlement of certain hedge contracts, 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 as well as cash settlements for applicable hedge contracts received by Enduro during the relevant month for periods during which hedges were in place. Monthly operating expenses and capital expenditures represent 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.

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ENDURO ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS - Continued

(unaudited)

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*.

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 prices and operating costs. These estimates are expected to change as additional information becomes available in the future. Lower than anticipated pricing may cause downward revisions in proved reserves, resulting in an increased rate of amortization in future periods. Accumulated amortization as of March 31, 2015 and December 31, 2014 was \$208,700,311 and \$197,876,299, respectively.

The Net Profits Interest is periodically assessed for impairment whenever events or circumstances indicate that the aggregate value may have been impaired below its total capitalized cost based on the Underlying Properties. While the Trust did not record an impairment during 2014 or the quarter ended March 31, 2015, downward revisions in expected future production volumes relative to current forecasts or lower than anticipated market pricing could result in recognition of impairment in future periods.

4. COMMODITY HEDGES

The Trust is exposed to fluctuations in energy prices in the normal course of business due to the Net Profits Interest in the Underlying Properties. The revenues derived from the Underlying Properties depend substantially on prevailing crude oil prices and, to a lesser extent, natural gas prices. As a result, commodity prices affect the amount of cash flow available for distribution to the Trust unitholders. Lower prices may also reduce the amount of oil and natural gas that Enduro and its third party operators can economically produce. In 2011, to mitigate the negative effects of a possible decline in oil and natural gas prices on distributable income to the Trust and to achieve more predictable cash flows, Enduro

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entered into hedge contracts with respect to approximately half of expected oil and natural gas production for 2013. Enduro did not enter into any hedge contracts relating to oil and natural gas volumes expected to be produced after 2013 and the terms of the Net Profits Interest prohibit Enduro from entering into new hedging arrangements burdening the Trust. Hedge contracts related to 2013 production matured on December 31, 2013; however, as the Trust uses the modified cash basis of accounting, hedge receipts related to 2013 production continued to be included in the distribution until the distribution paid in April 2014. All production attributable to 2014 and thereafter for the Trust is unhedged.

5. 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 pro rata share of the income and gain attributable to the assets of the Trust and entitled to claim his 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 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.

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ENDURO ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS - Continued

(unaudited)

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. 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.

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 should not be taxed at the trust level in Louisiana or New Mexico. While the Trust should 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 will not be 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 1% on gross revenues less certain deductions, 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. While 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.

6. 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, 2015 and 2014:

| Declaration Date | Record Date | Payment Date | Distribution per Unit | |
|---|--------------------|---------------------|------------------------------|----------|
| 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 |
| Three Months Ended March 31, 2014: | | | | |
| December 20, 2013 | December 31, 2013 | January 15, 2014 | \$ | 0.134090 |
| January 21, 2014 | January 31, 2014 | February 14, 2014 | \$ | 0.117935 |
| February 18, 2014 | February 28, 2014 | March 14, 2014 | \$ | 0.100655 |
| | | | \$ | 0.352680 |

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ENDURO ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS - Continued

(unaudited)

7. RELATED PARTY TRANSACTIONS

Under the terms of the Trust Agreement, the Trust pays an annual administrative fee of \$200,000 to the Trustee and \$2,000 to the Delaware Trustee. During the three months ended March 31, 2015 and 2014, the Trust paid \$50,000 during 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, 2015 and 2014.

8. SUBSEQUENT EVENTS

As disclosed in the Trust's 2014 Annual Report on Form 10-K, in January 2015, Enduro received notice from one of the operators of the Underlying Properties in the Elm Grove field of the East Texas/North Louisiana region that the operator had not been charging the working interest owners a proportionate share of unused firm capacity reservation fees since January 2012.

The operator began recouping these fees in check remittances during the three months ended March 31, 2015 and plans to continue to charge such fees going forward. In January 2015, the operator withheld approximately \$400,000 from the check to Enduro that relates to the Underlying Properties and, as a result, income attributable to the Net Profits Interest and, in turn, the related distribution paid during the second quarter of 2015 was negatively impacted. In late 2014, this operator sold the conventional wells in the Elm Grove field, which represent the majority of the related properties (approximately 94 percent of production), to another operator. Enduro is currently receiving revenue payments from the new operator of the properties.

Enduro has not received any revenue payments on properties retained by the original operator and does not expect to receive payment until the retroactive unused firm capacity reservation fees are fully recouped or determined to be inappropriately allocated to the working interest owners. Enduro continues to work with the operator regarding the exact amount of the fees that will be withheld and whether such fees can be withheld from working interest owners and retroactively recouped.

On April 14, 2015, the distribution of \$0.037109 per Trust Unit, which was declared on March 20, 2015, was paid to Trust unitholders owning Trust Units as of March 31, 2015. The distribution consisted of net profits allocable to the Trust of \$1,289,602, less cash reserves withheld for future Trust expenses of approximately \$65,000.

On April 20, 2015, the Trust declared a distribution of \$0.017598 per unit to unitholders of record as of April 30, 2015. The distribution is expected to be paid to unitholders on May 14, 2015.

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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 2014 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.

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 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;

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- 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 approximately 99% 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 10th 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; and
- the amount and timing of Trust administrative expenses.

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.

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Results of Operations

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

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) |
|--|------------------------------|---------------|------------------------|
| | 2015 | 2014 | |
| Gross profits: | | | |
| Oil sales | \$ 18,745,333 | \$ 20,943,624 | (10%) |
| Natural gas sales | 5,285,082 | 5,725,783 | (8%) |
| Total | 24,030,415 | 26,669,407 | (10%) |
| Costs: | | | |
| Direct operating expenses: | | | |
| Lease operating expenses | 8,876,000 | 7,325,000 | 21% |
| Compression, gathering and transportation | 842,000 | 800,000 | 5% |
| Production, ad valorem and other taxes | 1,700,000 | 1,928,000 | (12%) |
| Development expenses | 8,786,000 | 3,498,000 | 151% |
| Total | 20,204,000 | 13,551,000 | 49% |
| Settlement of hedge contracts | | 1,710,883 | (100%) |
| Net profits | \$ 3,826,415 | \$ 14,829,290 | (74%) |
| Percentage allocable to Net Profits Interest | 80% | 80% | |
| Income from Net Profits Interest | \$ 3,061,132 | \$ 11,863,431 | (74%) |
| Trust general and administrative expenses and cash withheld for expenses | 150,004 | 224,993 | (33%) |
| Distributable income | \$ 2,911,128 | \$ 11,638,438 | (75%) |

The following table displays oil and natural gas sales volumes and average prices (excluding the effects of the hedging arrangements discussed in Note 4 of the Notes to Financial Statements) from the Underlying Properties, representing the amounts included in the net profits calculation for distributions paid during the three months ended March 31, 2015 and 2014:

| | Three Months Ended March 31, | | Increase (Decrease) |
|--|------------------------------|-----------|------------------------|
| | 2015 | 2014 | |
| Underlying Properties Production Volumes: | | | |
| Oil (Bbls) | 242,369 | 212,636 | 14% |
| Natural Gas (Mcf) | 1,293,545 | 1,502,577 | (14%) |
| Combined (Boe) | 457,960 | 463,066 | (1%) |
| Average Prices: | | | |
| Oil - NYMEX (September-November) (\$/Bbl) | \$ 84.40 | \$ 100.37 | (16%) |
| Differential | \$ (7.06) | \$ (1.87) | 278% |
| Oil prices realized (\$/Bbl) | \$ 77.34 | \$ 98.50 | (21%) |

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| | | | | | |
|---|----|------|----|------|------|
| Natural gas - NYMEX (August-October) (\$/Mcf) | \$ | 3.87 | \$ | 3.58 | 8% |
| Differential | \$ | 0.22 | \$ | 0.23 | (4%) |
| Natural gas prices realized (\$/Mcf) | \$ | 4.09 | \$ | 3.81 | 7% |

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Income from the Net Profits Interest for the three months ended March 31, 2015 is calculated from the following:

- oil sales primarily related to oil produced from the Underlying Properties from September 2014 through November 2014;
- natural gas sales primarily related to natural gas produced from the Underlying Properties from August 2014 through October 2014;
and
- direct operating and development expenses primarily related to expenses incurred from October 2014 to December 2014.

Net profits attributable to the Underlying Properties for the three months ended March 31, 2015 were \$3.8 million compared to \$14.8 million for the three months ended March 31, 2014. The \$11.0 million decrease was primarily due to the following items:

- Development expenses increased \$5.3 million primarily due to a \$4.6 million increase in capital activity by Pioneer Natural Resources (Pioneer) for Wolfcamp Permian Basin oil projects in the Midland Basin. Of the \$8.8 million in total development expenses during the first quarter of 2015, \$6.5 million related to the Pioneer Wolfcamp Rocker B program.
- Oil sales decreased \$2.2 million due to lower realized prices, which reduced oil sales by \$5.1 million, partially offset by an increase in sales volumes, which contributed an additional \$2.9 million of oil sales. The average oil price received decreased 21% due to a 16% decrease in the average NYMEX oil price and substantially wider differentials in the Permian Basin for the relevant production months. Oil sales volumes increased 14% primarily due to new wells coming online in the Permian Basin. Distributions paid in the first quarter of 2015 included revenue from approximately 28,000 Bbls of new production from 17 wells drilled by Pioneer in the Wolfcamp play in the Midland Basin.
- The absence of hedge settlements due to the maturation of all hedge contracts related to 2013 production accounted for a decrease of \$1.7 million. For further information on commodity hedges, see Note 4 of the Notes to Financial Statements.
- Lease operating expenses increased \$1.6 million (\$3.56 per Boe) due to an increase in plugging and abandonment costs, workover and maintenance activity on mature fields in the Permian Basin, and an increase in oil volumes, which have higher lifting costs, as a percentage of total production.
- Natural gas sales decreased \$0.4 million due to reduced sales volumes, which decreased natural gas sales by \$0.8 million, partially offset by an increase in realized price, which contributed \$0.4 million of additional natural gas sales. Natural gas sales volumes decreased 14% primarily as a result of the natural decline of wells located in north Louisiana, partially offset by increases in the Permian Basin due to new wells coming online, less downtime from severe winter weather compared to the first quarter of 2014, and favorable timing differences in payments received from third parties. The average natural gas price received increased 7% primarily due to an 8% increase in the average NYMEX natural gas price for the relevant production months.

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The Trust withheld \$0.2 million and paid \$0.4 million for general and administrative expenses during the three months ended March 31, 2015. Expenses paid during the period primarily consisted of fees for the preparation of 2014 tax information for unitholders, preparation of the Trust's reserve report and 2014 Annual Report on Form 10-K, 2014 financial statement audit fees, Trustee fees, and NYSE listing fees. For the three months ended March 31, 2014, the Trust withheld and paid general and administrative expenses of \$0.2 million.

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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, draws on the letter of credit or Enduro loans funds to the Trust, 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, 2015 and December 31, 2014, the Trust held cash reserves of \$42,379 and \$249,068, 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.

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.

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As substantially all of the Underlying Properties are located in mature fields, Enduro does not expect future operating costs for the Underlying Properties to change significantly as compared to recent historical costs other than changes due to fluctuations in the cost of oilfield services generally.

In prior periods, the amounts received by Enduro from hedge contract counterparties upon settlement of the hedge contracts reduced the operating expenses related to the Underlying Properties in calculating income from the Net Profits Interest in the first and second quarters of 2014. Enduro has not entered into any hedge contracts relating to oil and natural gas volumes expected to be produced after 2013, and the terms of the Conveyance prohibit Enduro from entering into new hedging arrangements burdening the Trust.

The Trust pays the Trustee an administrative fee of \$200,000 per year. The Trust pays the Delaware Trustee a fee of \$2,000 per year. 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.

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Distributions Declared After Quarter End

On April 20, 2015, the Trust declared a distribution of \$0.017598 per unit to unitholders of record as of April 30, 2015. The distribution is expected to be paid to unitholders on May 14, 2015.

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.

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 2014 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, 2015.

Subsequent Events

As disclosed in the Trust's 2014 Annual Report on Form 10-K, in January 2015, Enduro received notice from one of the operators of the Underlying Properties in the Elm Grove field of the East Texas/North Louisiana region that the operator had not been charging the working interest owners a proportionate share of unused firm capacity reservation fees since January 2012.

The operator began recouping these fees in check remittances during the three months ended March 31, 2015 and plans to continue to charge such fees going forward. In January 2015, the operator withheld approximately \$400,000 from the check to Enduro that relates to the Underlying Properties and, as a result, income attributable to the Net Profits Interest and, in turn, the related distribution paid during the second quarter of 2015 was negatively impacted. In late 2014, this operator sold the conventional wells in the Elm Grove field, which represent the majority of the related properties (approximately 94 percent of production), to another operator. Enduro is currently receiving revenue payments from the new

operator of the properties.

Enduro has not received any revenue payments on properties retained by the original operator and does not expect to receive payment until the retroactive unused firm capacity reservation fees are fully recouped or determined to be inappropriately allocated to the working interest owners. Enduro continues to work with the operator regarding the exact amount of the fees that will be withheld and whether such fees can be withheld from working interest owners and retroactively recouped.

On April 14, 2015, the distribution of \$0.037109 per Trust Unit, which was declared on March 20, 2015, was paid to Trust unitholders owning Trust Units as of March 31, 2015. The distribution consisted of net profits allocable to the Trust of \$1,289,602, less cash reserves withheld for future Trust expenses of approximately \$65,000.

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; however, 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.

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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 of the Net Profits Interest, 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.

Changes in Internal Control over Financial Reporting.

During the three months ended March 31, 2015, there was no change in the Trust's internal control over financial reporting that has materially affected, or is 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 2014 Annual Report on Form 10-K. No material change to such risk factors occurred during the three months ended March 31, 2015.

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 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

Date: May 8, 2015

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

| Exhibit Number | Description |
|---------------------------|---|
| 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 |

* Filed herewith.