

Gulf Coast Ultra Deep Royalty Trust  
Form 10-Q  
November 09, 2016

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

FORM 10-Q

(Mark One)

QUARTERLY  
REPORT  
PURSUANT  
TO SECTION  
13 OR 15(d)  
OF THE

SECURITIES  
EXCHANGE ACT OF  
1934

For the quarterly period  
ended September 30,  
2016

OR

TRANSITION  
REPORT  
PURSUANT  
TO SECTION  
13 OR 15(d)  
OF THE

SECURITIES  
EXCHANGE ACT OF  
1934

For the  
transition to  
period from

Commission File  
Number: 001-36386

Gulf Coast Ultra Deep  
Royalty Trust  
(Exact name of  
registrant as specified in  
its charter)  
Delaware

46-6448579

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

The Bank of New York Mellon Trust Company, N.A., as trustee  
Institutional Trust Services  
919 Congress Avenue, Suite 500  
Austin, Texas 78701  
(Address of principal executive offices) (Zip Code)

(512) 236-6599

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  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

On October 31, 2016, there were outstanding 230,172,696 royalty trust units representing beneficial interests in the registrant.

Gulf Coast Ultra Deep Royalty Trust  
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2016	December 31, 2015
(audited)		
Operating cash	\$239,719	\$176,074
Reserve fund cash	1,001,167	1,000,052
Overriding royalty interests in subject interests, net	4,189,100	6,085,310
<b>Total assets</b>	<b>\$5,429,986</b>	<b>\$7,261,436</b>

LIABILITIES  
AND  
TRUST  
CORPUS

Reserve fund liability	\$1,001,167	\$1,000,052
Loan payable to Freeport-McMoran Inc. (FCX) Trust corpus (royalty trust units authorized, issued	650,000	650,000
	(230,172,696)	

and  
outstanding  
as  
of  
September  
30,  
2016 3,778,819 5,611,384  
and  
December  
31,  
2015)  
Total  
liabilities  
and trust  
corpus \$5,429,986 \$7,261,436

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Royalty income	\$249,862	\$ 133,922	\$548,824	\$254,397
Interest income and other	34	—	819	1
Administrative expenses	(105,135 )	(92,978 )	(485,998 )	(434,647 )
Income in excess of administrative expenses (administrative expenses in excess of income) (Note 4)	\$144,761	\$ 40,944	\$63,645	\$(180,249 )
Distributable income	\$—	\$—	\$—	\$—
Distributable income per royalty trust unit	\$—	\$—	\$—	\$—
Royalty trust units outstanding at end of period	230,172,696	230,172,696	230,172,696	230,172,696

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Trust corpus, beginning of period	\$4,368,089	\$78,422,924	\$5,611,384	\$168,058,172
Trust contributions	—	—	—	350,000
Amortization of overriding royalty interests in subject interests	(734,031 )	(273,211 )	(1,896,210 )	(520,266 )
Impairment of subject interests	—	(11,503,700 )	—	(101,000,700 )
Income in excess of administrative expense (administrative expenses in excess of income)	144,761	40,944	63,645	(180,249 )
Trust corpus, end of period	\$3,778,819	\$66,686,957	\$3,778,819	\$66,706,957

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

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

1. BASIS OF ACCOUNTING AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Gulf Coast Ultra Deep Royalty Trust (the Royalty Trust) are prepared on the modified cash basis of accounting and are not intended to present the Royalty Trust's financial position and results of operations in conformity with United States (U.S.) generally accepted accounting principles (GAAP). This other comprehensive basis of accounting corresponds to the accounting permitted for royalty trusts by the U.S. Securities and Exchange Commission (SEC), as specified by Staff Accounting Bulletin Topic 12:E, Financial Statements of Royalty Trusts. There has been no distributable income paid or due to the Royalty Trust unitholders from December 18, 2012 (inception) through September 30, 2016.

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all required information and disclosures. Therefore, this information should be read in conjunction with the Royalty Trust's financial statements and notes contained in its annual report on Form 10-K for the year ended December 31, 2015. The information furnished herein reflects all adjustments that are, in the opinion of The Bank of New York Mellon Trust Company, N.A. (the Trustee), necessary for a fair statement of the results for the interim periods reported. With the exception of the impairment of overriding royalty interests in the subject interests discussed in Note 2, all such adjustments are, in the opinion of the Trustee, of a normal recurring nature. Operating results for the three-month and nine-month periods ended September 30, 2016, are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The Royalty Trust was created to hold a 5% gross overriding royalty interest (collectively, the overriding royalty interests) in future production from each of McMoRan Oil & Gas LLC's (McMoRan) Inboard Lower Tertiary/Cretaceous exploration prospects located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana that existed as of December 5, 2012 (collectively, the subject interests).

**Royalty Income.** Royalties are recorded in royalty income on the statement of distributable income when received under the modified cash basis of accounting.

2. OVERRIDING ROYALTY INTERESTS

There were no impairment charges recorded for the three- or nine-month periods ended September 30, 2016. Impairment charges of \$101.0 million, representing the carrying value associated with the offshore England and onshore Tortuga and Lineham Creek subject interests, were recorded for the nine-month period ended September 30, 2015 (\$11.5 million of which was recorded for the three-month period ended September 30, 2015, relating to the onshore Lineham Creek subject interest). At that time McMoRan informed the Trustee that it did not plan to drill, further develop or conduct operational activities on these subject interests and intended to relinquish the related leases.

The onshore Highlander subject interest began commercial production on February 25, 2015. Prior to this date there had been no commercial production of hydrocarbons from any of the subject interests. During the nine-month period ended September 30, 2016, the Highlander well was shut-in for approximately one month for well and facility maintenance activities and resumed production on February 26, 2016. Amortization charges related to production volumes associated with the onshore Highlander subject interest reduced the carrying value of the overriding royalty interests during the three- and nine-month periods ended September 30, 2016 by \$734,031 and \$1,896,210, respectively. Amortization charges related to production volumes associated with the onshore Highlander subject interest reduced the carrying value of the overriding royalty interest in the subject interests by \$273,211 and \$520,266 for the three- and nine-month periods ended September 30, 2015, respectively.



McMoRan has informed the Trustee that it has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander subject interest. Additionally, McMoRan has informed the Trustee that it is unlikely to drill additional Inboard Lower Tertiary/Cretaceous wells at the current time, considering existing natural gas prices and the cost of drilling and completing these wells. McMoRan has also informed the Trustee that as annual rentals on leases outside the currently producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to September 30, 2016,

McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.

In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests will become part of the subject interests, and if this were to occur, it is expected that the Royalty Trust's overriding royalty interest would be 5% of McMoRan's estimated working interest as indicated in the master conveyance.

### 3. INCOME TAXES

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

### 4. RELATED PARTY TRANSACTIONS

**Royalty Income and Distributions.** Royalties are paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance of overriding royalty interests (the master conveyance). In accordance with the master conveyance, the Royalty Trust received royalties of \$249,862 and \$548,824 from McMoRan during the three- and nine-month periods ended September 30, 2016, respectively. Additionally, the Royalty Trust received royalties of \$133,922 and \$254,397 from McMoRan during the three- and nine-month periods ended September 30, 2015, respectively.

Royalties received by the Royalty Trust must first be used to (i) satisfy Royalty Trust administrative expenses and (ii) reduce Royalty Trust indebtedness (\$650,000 as of September 30, 2016). Additionally, the Trustee has implemented a minimum cash reserve requirement of \$250,000. As a result, distributions would be paid to Royalty Trust unitholders only when the cumulative amount of royalties received less administrative expenses incurred and repayment of all indebtedness exceeds \$250,000. Accordingly, there were no distributions paid to Royalty Trust unitholders during the three- and nine-month periods ended September 30, 2016, and no distributions are anticipated during the remainder of 2016.

**Funding of Administrative Expenses.** Pursuant to the royalty trust agreement, FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due, to the extent the Royalty Trust lacks sufficient funds to pay administrative expenses. No such contributions were made during the three- or nine-month periods ended September 30, 2016. During the nine-month period ended September 30, 2015, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's

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ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which had been repaid as of September 30, 2016.

**Reserve Fund Cash and Reserve Fund Liability.** Pursuant to the royalty trust agreement, FCX agreed to provide and maintain a \$1.0 million stand-by reserve account or an equivalent letter of credit for the benefit of the Royalty Trust to enable the Trustee to draw on such reserve account or letter of credit to pay obligations of the Royalty Trust if its funds are inadequate to pay its obligations at any time. Currently, with the consent of the Trustee, FCX may reduce the reserve account or substitute a letter of credit with a different face amount for the original letter of credit or any substitute letter of credit. In connection with this arrangement, FCX has provided \$1.0 million in the form of a

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reserve fund cash account to the Royalty Trust, which amount is reflected as reserve fund cash with a corresponding reserve fund liability in the accompanying Statements of Assets, Liabilities and Trust Corpus. As of September 30, 2016, the Royalty Trust had not drawn any funds from the reserve account, and FCX had not requested a reduction of such reserve account.

Compensation of the Trustee. Prior to 2016, the Trustee was paid the sum of \$150,000 per year, in advance, until the first year in which the Royalty Trust received royalty payments pursuant to the conveyances of the overriding royalty interests, at which time such sum was increased to \$200,000 per year. Because the Royalty Trust received royalties related to the onshore Highlander subject interest in the second quarter of 2015, the Trustee's compensation increased to \$200,000 per year beginning in 2016. Additionally, the Trustee receives reimbursement for its reasonable out-of-pocket expenses incurred in connection with the administration of the Royalty Trust. The Trustee's compensation is paid out of the Royalty Trust's assets. The Trustee has a lien on the Royalty Trust's assets to secure payment of its compensation and any indemnification expenses and other amounts to which it is entitled under the royalty trust agreement.

Royalty Trust Units Held by FCX. At September 30, 2016 and December 31, 2015, the Royalty Trust had 230,172,696 royalty trust units outstanding and FCX, through its indirect wholly owned subsidiary McMoRan, held 62,286,299 royalty trust units (or 27.1% of the outstanding royalty trust units). At September 30, 2016 and December 31, 2015, FCX was the largest holder of outstanding royalty trust units.

## 5. CONTINGENCIES AND OTHER COMMITMENTS

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

## 6. SUBSEQUENT EVENTS

On April 19, 2016, the Royalty Trust received a letter from the OTC Markets Group Inc. notifying the Royalty Trust that, because the bid price of the royalty trust units had closed below \$0.10 per unit for more than 30 consecutive calendar days, the Royalty Trust no longer met the Standards for Continued Qualification for the OTCQX U.S. tier of the over-the-counter, or OTC, markets (OTCQX U.S.) set forth in Section 3.2b of the OTCQX Rules for U.S. Companies.

In accordance with Section 3.2b in the OTCQX Rules for U.S. Companies, the Royalty Trust had a period of 180 calendar days, or until October 17, 2016, in which to regain compliance with the minimum bid price requirement of the OTCQX U.S. In order to regain compliance, the bid price of the royalty trust units was required to close at or above \$0.10 per unit for a minimum of ten consecutive trading days during this 180-day period. The Royalty Trust did not demonstrate compliance with the minimum bid price requirement by October 17, 2016, and as such, on October 21, 2016, the royalty trust units moved from the OTCQX U.S. to the OTC Pink tier of the OTC markets, which could adversely affect the market price, trading volume, liquidity and resale price of the royalty trust units. The closing bid price for the royalty trust units was \$0.04 on November 4, 2016.

The Royalty Trust evaluated all other events subsequent to September 30, 2016, and through the date the Royalty Trust's financial statements were issued, and determined that all events or transactions occurring during this period requiring recognition or disclosure were appropriately addressed in these financial statements.

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

## OVERVIEW

You should read the following discussion in conjunction with the financial statements of Gulf Coast Ultra Deep Royalty Trust (the Royalty Trust). The results of operations reported and summarized below are not necessarily

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indicative of future operating results. Unless otherwise specified, all references to "Notes" refer to Notes to Financial Statements located in Part I, Item I. "Financial Statements" in this Form 10-Q. Also see the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the United States (U.S.) Securities and Exchange Commission (SEC) for a glossary of definitions for some of the oil and gas industry terms used in this Form 10-Q. Additionally, please refer to the section entitled "Cautionary Statement" on page 16 of this Form 10-Q. The information below has been furnished to the Trustee by Freeport-McMoRan Inc. (FCX) and FCX's indirect wholly owned subsidiary, McMoRan Oil & Gas LLC (McMoRan).

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

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

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

The Royalty Trust was created to hold a 5% gross overriding royalty interest (collectively, the overriding royalty interests) in future production from each of McMoRan's Inboard Lower Tertiary/Cretaceous exploration prospects located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana that existed as of December 5, 2012, the date of the merger agreement (collectively, the subject interests). The subject interests were "carved out" of the mineral interests that were acquired by FCX pursuant to the merger and were not considered part of FCX's purchase consideration of MMR. McMoRan owns less than 100% of the working interest associated with each of the subject interests.

In connection with the merger, on June 3, 2013, (1) FCX, as depositor, McMoRan, as grantor, the Trustee and the Delaware Trustee entered into the amended and restated royalty trust agreement to govern the Royalty Trust and the respective rights and obligations of FCX, the Trustee, the Delaware Trustee, and the Royalty Trust unitholders with respect to the Royalty Trust (the royalty trust agreement); and (2) McMoRan, as grantor, and the Royalty Trust, as grantee, entered into the master conveyance of overriding royalty interests (the master conveyance) pursuant to which McMoRan conveyed to the Royalty Trust the overriding royalty interests in future production from the subject interests. Other than (a) its formation, (b) its receipt of contributions and loans from FCX for administrative and other expenses as provided for in the royalty trust agreement, (c) its payment of such administrative and other expenses, (d) its receipt of the conveyance of the overriding royalty interests from McMoRan pursuant to the master conveyance, and (e) its receipt of royalties from McMoRan, the Royalty Trust has not conducted any activities. The Trustee has no involvement with, control over, or responsibility for, any aspect of any operations on or relating to the subject interests.

Prior to 2016, the Trustee was paid the sum of \$150,000 per year, in advance, until the first year in which the Royalty Trust received royalty payments pursuant to the conveyances of the overriding royalty interests, at which time such sum was increased to \$200,000 per year. Because the Royalty Trust received royalties related to the onshore Highlander subject interest in the second quarter of 2015, the Trustee's compensation increased to \$200,000 per year beginning in 2016. Additionally, the Trustee receives reimbursement for its reasonable out-of-pocket expenses incurred in connection with the administration of the Royalty Trust. The Trustee's compensation is paid out of the Royalty Trust's assets. The Trustee has a lien on the Royalty Trust's assets to secure payment of its compensation and any indemnification expenses and other amounts to which it is entitled under the royalty trust agreement.

McMoRan previously informed the Trustee that since 2008, McMoRan's Inboard Lower Tertiary/Cretaceous drilling activities (below the salt weld, i.e., the listric fault) have confirmed McMoRan's belief relating to its geologic model

and the highly prospective nature of this geologic trend. McMoRan believes that data from nine Inboard Lower Tertiary/Cretaceous wells drilled to date indicate the presence of geologic formations that are analogous to productive formations in the Deepwater Gulf of Mexico and onshore in the Gulf Coast region. Eight of these wells were included in the subject interests, along with additional exploration prospects that will also be burdened by the overriding royalty interests. However, McMoRan has informed the Trustee that it has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander subject interest. Additionally, McMoRan has informed the Trustee that it is unlikely to drill additional Inboard Lower Tertiary/Cretaceous wells at the current time, considering existing natural gas prices and the cost of drilling and completing these wells. McMoRan has also informed the Trustee that as annual rentals on leases outside the currently

producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to September 30, 2016, McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.

In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests will become part of the subject interests.

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

During 2016, FCX has entered into a series of asset sale transactions associated with certain oil and gas properties, including its rights in the Haynesville shale, Deepwater Gulf of Mexico and onshore in California. None of these transactions impact FCX's rights to the subject interests included in the Royalty Trust.

On April 19, 2016, the Royalty Trust received a letter from the OTC Markets Group Inc. notifying the Royalty Trust that, because the bid price of the royalty trust units had closed below \$0.10 per unit for more than 30 consecutive calendar days, the Royalty Trust no longer met the Standards for Continued Qualification for the OTCQX U.S. tier of the over-the-counter, or OTC, markets (OTCQX U.S.) set forth in Section 3.2b of the OTCQX Rules for U.S. Companies.

In accordance with Section 3.2b in the OTCQX Rules for U.S. Companies, the Royalty Trust had a period of 180 calendar days, or until October 17, 2016, in which to regain compliance with the minimum bid price requirement of the OTCQX U.S. In order to regain compliance, the bid price of the royalty trust units was required to close at or above \$0.10 per unit for a minimum of ten consecutive trading days during this 180-day period. The Royalty Trust did not demonstrate compliance with the minimum bid price requirement by October 17, 2016, and as such, on October 21, 2016, the royalty trust units moved from the OTCQX U.S. to the OTC Pink tier of the OTC markets, which could adversely affect the market price, trading volume, liquidity and resale price of the royalty trust units. The closing bid price for the royalty trust units was \$0.04 on November 4, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

Pursuant to the royalty trust agreement, FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due, to the extent the Royalty Trust lacks sufficient funds to pay administrative expenses. No such contributions were made during the three- or nine-month periods ended September 30, 2016. During the nine-month period ended September 30, 2015, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which had been repaid as of September 30, 2016. All funds the Trustee borrows to cover expenses or liabilities, whether from FCX or from any other source, must be repaid before the Royalty Trust unitholders will receive any distributions.



Pursuant to the royalty trust agreement, FCX agreed to provide and maintain a \$1.0 million stand-by reserve account or an equivalent letter of credit for the benefit of the Royalty Trust to enable the Trustee to draw on such reserve account or letter of credit to pay obligations of the Royalty Trust if its funds are inadequate to pay its obligations at any time. Currently, with the consent of the Trustee, FCX may reduce the reserve account or substitute a letter of credit with a different face amount for the original letter of credit or any substitute letter of credit. In connection with this arrangement, FCX has provided \$1.0 million in the form of a reserve fund cash account to the Royalty Trust. As of September 30, 2016, the Royalty Trust had not drawn any funds from the reserve account, and FCX had not requested a reduction of such reserve account.

As of September 30, 2016, only the onshore Highlander subject interest had established commercial production. Royalties are paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance. In accordance with the master conveyance, the Royalty Trust received royalties of \$249,862 and \$548,824 from McMoRan during the three- and nine-month periods ended September 30, 2016, respectively. Additionally, the Royalty Trust received royalties of \$133,922 and \$254,397 from McMoRan during the three- and nine-month periods ended September 30, 2015, respectively.

Royalties received by the Royalty Trust must first be used to (i) satisfy Royalty Trust administrative expenses and (ii) reduce Royalty Trust indebtedness (\$650,000 as of September 30, 2016). Additionally, the Trustee has implemented a minimum cash reserve requirement of \$250,000. As a result, distributions would be paid to Royalty Trust unitholders only when the cumulative amount of royalties received less administrative expenses incurred and repayment of all indebtedness exceeds \$250,000. Accordingly, there were no distributions paid to Royalty Trust unitholders during the three- and nine-month periods ended September 30, 2016, and no distributions are anticipated during the remainder of 2016. The Royalty Trust's only other sources of liquidity are mandatory annual contributions, any loans and the required standby reserve account or letter of credit from FCX. As a result, any material adverse change in FCX's or McMoRan's financial condition or results of operations could materially and adversely affect the Royalty Trust and the underlying royalty trust units.

#### OFF-BALANCE SHEET ARRANGEMENTS

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

#### THE SUBJECT INTERESTS

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

As more fully discussed below, McMoRan has informed the Trustee that it has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander subject interest.

The subject interests consist of 20 specified Inboard Lower Tertiary/Cretaceous prospects (which have target depths generally greater than 18,000 feet total vertical depth) located in the shallow waters of the Gulf of Mexico and onshore in South Louisiana, one of which began commercial production in 2015, and the rest of which are exploration prospects. The offshore subject interests consist of the following exploration prospects: (1) Barataria; (2) Barbosa; (3) Blackbeard East; (4) Blackbeard West; (5) Blackbeard West #3; (6) Bonnet; (7) Calico Jack; (8) Captain Blood; (9) Davy Jones; (10) Davy Jones West; (11) Drake; (12) England; (13) Hook; (14) Hurricane; (15) Lafitte;

(16) Morgan; and (17) Queen Anne's Revenge. The onshore subject interests consist of (1) Highlander; (2) Lineham Creek; and (3) Tortuga. Other than the onshore Highlander subject interest, which began commercial production on February 25, 2015, the onshore subject interests are currently exploration prospects. McMoRan does not own 100% of the estimated working interest associated with any of the subject interests. The overriding royalty interests in future production from the subject interests burden all of McMoRan's leasehold interests associated with such prospects as of December 5, 2012, and will burden any leasehold interests associated with such prospects that McMoRan acquires on or before December 5, 2017, up to the estimated working interests reflected in the master conveyance (subject to McMoRan's right to dispose of a portion of the working interests to a percentage not less than the estimated working interests reflected in the master conveyance). Each of the overriding royalty interests has been, or will be, proportionately reduced based on McMoRan's working

interest to equal the product of 5% multiplied by a fraction, the numerator of which is the working interest held by McMoRan and its affiliates associated with the applicable subject interest (subject to a cap equal to McMoRan's estimated working interest (equal to the working interest McMoRan owns or expects to acquire and as reflected in the master conveyance) associated with each subject interest, on a prospect-by-prospect basis) and the denominator of which is 100%.

As of December 5, 2012, the date of the merger agreement, the subject interests comprised all of McMoRan's Inboard Lower Tertiary/Cretaceous exploration prospects. Additional Inboard Lower Tertiary/Cretaceous exploration prospects developed by McMoRan (other than those reflected below) will not be included in the subject interests. As of September 30, 2016, McMoRan had acquired working interests in additional Inboard Lower Tertiary/Cretaceous exploration prospects that are not part of the subject interests.

There were no impairment charges recorded for the three- or nine-month periods ended September 30, 2016. An impairment charge of \$101.0 million, representing the carrying value associated with the offshore England and onshore Tortuga and Lineham Creek subject interests, was recorded for the nine-month period ended September 30, 2015, (\$11.5 million of which was recorded for the three-month period ended September 30, 2015 related to the onshore Lineham Creek subject interest). At that time McMoRan informed the Trustee that it did not plan to drill, further develop or conduct operational activities on these subject interests and intended to relinquish the related leases.

McMoRan has informed the Trustee that it has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander subject interest. Additionally, McMoRan has informed the Trustee that it is unlikely to drill additional Inboard Lower Tertiary/Cretaceous wells at the current time, considering existing natural gas prices and the cost of drilling and completing these wells. McMoRan has also informed the Trustee that as annual rentals on leases outside the currently producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to September 30, 2016, McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.

In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests will become part of the subject interests, and if this were to occur, it is expected that the Royalty Trust's overriding royalty interest would be 5% of McMoRan's estimated working interest as indicated in the master conveyance.

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Information regarding McMoRan's estimated working interest and the Royalty Trust's estimated overriding royalty interest for each subject interest as of September 30, 2016, is set forth below.

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

(a) McMoRan's lease rights to the offshore Davy Jones, Blackbeard East, Blackbeard West, England, Barbosa, Morgan, Barataria, Blackbeard West #3, Drake, Davy Jones West, Hook, Captain Blood, Bonnet, Queen Anne's Revenge and Calico Jack subject interests and the onshore Lineham Creek and Tortuga subject interests have expired or were relinquished.

(b) McMoRan has informed the Trustee that it has assigned its interest in the lease related to the offshore Lafitte subject interest. The Royalty Trust's overriding royalty interest will continue to burden the assigned interest and such interest will terminate when the related lease expires or is relinquished.

(c) McMoRan has informed the Trustee that it does not plan to develop the offshore Hurricane subject interest. McMoRan's working interest and the Royalty Trust's overriding royalty interest in the related lease will terminate when the related lease rights expire.

(d) McMoRan has informed the Trustee that as annual rentals on leases outside the currently producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to

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September 30, 2016, McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.

The Royalty Trust has no ability to direct or influence the exploration or development of the subject interests. In addition, neither FCX nor McMoRan is under any obligation to fund or to commit any other resources to the exploration or development of the subject interests. Further, FCX and McMoRan each has the right to elect not to

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participate in drilling or other operations conducted by other working interest owners with respect to the subject interests.

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

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

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

The onshore Highlander subject interest began commercial production on February 25, 2015. Prior to this date there had been no commercial production of hydrocarbons from any of the subject interests. During the three-month period ended September 30, 2016, the Royalty Trust received royalties of \$249,862 from McMoRan related to 119,549 thousand cubic feet (Mcf) of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.35 per Mcf. During the nine-month period ended September 30, 2016, the Royalty Trust received royalties of \$548,824 from McMoRan related to 308,830 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.03 per Mcf. During this period, the Highlander well was shut-in for approximately one month for well and facility maintenance activities and resumed production on February 26, 2016. During the three-month period ended September 30, 2015, the Royalty Trust received royalties of \$133,922 from McMoRan related to 55,986 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.27 per Mcf and an average receipt price of \$2.67 per Mcf. During the nine-month period ended September 30, 2015, the Royalty Trust received royalties of \$254,397 from McMoRan related to 131,225 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.56 per Mcf.

Acreage. At September 30, 2016, McMoRan owned interests in approximately 275 oil and gas leases in the shallow waters of the Gulf of Mexico and onshore in South Louisiana, covering approximately 48,072 gross acres (28,100 acres net to McMoRan's interests) associated with the subject interests. Approximately 47% of those net acres associated with the subject interests are scheduled to expire during the remainder of 2016 through 2018, unless a lease on such acreage is perpetuated by a lease holding operation. Whether or not McMoRan maintains the acreage scheduled to expire is determined by McMoRan's current and future plans, over which the Royalty Trust has no control. Additionally, McMoRan has informed the Trustee that it is unlikely to drill additional Inboard Lower Tertiary/Cretaceous wells at the current time, considering existing natural gas prices and the cost of drilling and completing these wells. McMoRan has also informed the Trustee that as annual rentals on leases outside the currently

producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to September 30, 2016, McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.



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The following table reflects the oil and gas acreage associated with the subject interests in which McMoRan owned rights to the related leases as of September 30, 2016.

	Developed		Undeveloped (a)	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Offshore (federal waters)	—	—	23,403	11,912
Onshore South Louisiana	9,000	6,480	15,669	9,708
Total as of September 30, 2016	9,000	6,480	39,072	21,620

(a) As a result of impairment charges recorded in 2015 and prior years, there is no carrying value associated with undeveloped acreage remaining at September 30, 2016.

The following table reflects changes in McMoRan's acreage associated with the subject interests during the nine-month period ended September 30, 2016.

	Gross Acres		Net Acres	
	Offshore	Onshore	Offshore	Onshore
Total as of December 31, 2015	32,627	57,482	15,232	39,559
Lease expirations and other	9,224 (a)	32,813 (a)	3,320 (a)	23,371 (a)
Total as of September 30, 2016	23,403	24,669	11,912	16,188

(a) Lease expirations and other is primarily related to the expiration or relinquishment of leases associated with the offshore England subject interest and the onshore Highlander, Lineham Creek and Tortuga subject interests during the nine-month period ended September 30, 2016, in addition to adjustments resulting from surveys and title examinations. McMoRan has informed the Trustee that it has no plans to pursue, has relinquished, or has allowed to expire all subject interests except for the onshore Highlander subject interest. Additionally, McMoRan has informed the Trustee that it is unlikely to drill additional Inboard Lower Tertiary/Cretaceous wells at the current time, considering existing natural gas prices and the cost of drilling and completing these wells. McMoRan has also informed the Trustee that as annual rentals on leases outside the currently producing unit at the onshore Highlander subject interest become due, it will decide whether to pay or not pay its proportional share of such rentals. Under the operating agreement applicable to these leases, McMoRan is obligated to offer its interest in any acreage it decides to release to its co-lessees free and clear of the overriding royalty interest. Subsequent to September 30, 2016, McMoRan intends to release all of its interest in leases at the onshore Highlander subject interest outside the currently producing unit.

In the event on or before December 5, 2017, McMoRan acquires a leasehold interest covering the same area covered by a terminated lease, or acquires additional leasehold interests associated with any of the subject interests, such newly acquired leasehold interests will become part of the subject interests.

### RESULTS OF OPERATIONS

**Royalty Income.** As of September 30, 2016, only the onshore Highlander subject interest had established commercial production. In accordance with the master conveyance, during the three-month period ended September 30, 2016, the Royalty Trust received royalties of \$249,862 from McMoRan related to 119,549 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.35 per Mcf. During the nine-month period ended September 30, 2016, the Royalty

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Trust received royalties of \$548,824 from McMoRan related to 308,830 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.03 per Mcf. During this period, the Highlander well was shut-in for approximately one month for well and facility maintenance activities and resumed production on February 26, 2016. During the three-month period ended September 30, 2015, the Royalty Trust received royalties

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of \$133,922 from McMoRan related to 55,986 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.27 per Mcf and an average receipt price of \$2.67 per Mcf. During the nine-month period ended September 30, 2015, the Royalty Trust received royalties of \$254,397 from McMoRan related to 131,225 Mcf of natural gas production attributable to the onshore Highlander subject interest with average post-production expense costs of \$0.26 per Mcf and an average receipt price of \$2.56 per Mcf.

**Administrative Expenses.** During the three-month periods ended September 30, 2016 and 2015, the Royalty Trust paid administrative expenses of \$105,135 and \$92,978, respectively. During the nine-month periods ended September 30, 2016 and 2015, the Royalty Trust paid administrative expenses of \$485,998 and \$434,647, respectively.

Administrative expenses, which consisted primarily of audit, legal and trustee expenses incurred in connection with the administration of the Royalty Trust, increased for the three- and nine-month periods ended September 30, 2016 as compared to the corresponding 2015 periods primarily due to timing of payments, which are recorded in accordance with the modified cash basis of accounting.

#### NEW ACCOUNTING STANDARDS

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

#### CAUTIONARY STATEMENT

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

Forward-looking statements are not guarantees or assurances of future performance and actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that may cause actual results to differ materially from those anticipated by the forward-looking statements include, but are not limited to: the outcome of FCX's strategic review of its oil and gas business; the risk that the subject interests will not produce hydrocarbons; general economic and business conditions; variations in the market demand for, and prices of, oil and natural gas; drilling results; changes in oil and natural gas reserve expectations; the potential adoption of new governmental regulations; decisions by FCX or McMoRan not to develop the subject interests; any inability of FCX or McMoRan to develop the subject interests; damages to facilities resulting from natural disasters or accidents; fluctuations in the market price, volume and frequency of the trading market for the royalty trust units; and other factors described in Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC, as updated by the Royalty Trust's subsequent filings with the SEC.

Investors are cautioned that test results may not be indicative of future production rates or of the amounts of hydrocarbons that a well may produce, and that many of the assumptions upon which forward-looking statements are based are likely to change after such forward-looking statements are made, which the Royalty Trust cannot control. The Royalty Trust cautions investors that it does not intend to update its forward-looking statements, notwithstanding

any changes in assumptions, changes in business plans, actual experience, or other changes, and the Royalty Trust undertakes no obligation to update any forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Royalty Trust's most significant credit risk relates to adverse changes in FCX's or McMoRan's financial condition or results of operations. Royalties are paid to the Royalty Trust on the last day of the month following the month in which production payments are received by McMoRan in accordance with the terms of the master conveyance. In accordance with the master conveyance, the Royalty Trust received royalties of \$249,862 and \$548,824 from McMoRan during the three- and nine-month periods ended September 30, 2016, respectively. Additionally, the Royalty Trust received royalties of \$133,922 and \$254,397 from McMoRan during the three- and nine-month periods ended September 30, 2015, respectively.

Royalties received by the Royalty Trust must first be used to (i) satisfy Royalty Trust administrative expenses and (ii) reduce Royalty Trust indebtedness (\$650,000 as of September 30, 2016). Additionally, the Trustee has implemented a minimum cash reserve requirement of \$250,000. As a result, distributions would be paid to Royalty Trust unitholders only when the cumulative amount of royalties received less administrative expenses incurred and repayment of all indebtedness exceeds \$250,000. Accordingly, there were no distributions paid to Royalty Trust unitholders during the three- and nine-month periods ended September 30, 2016, and no distributions are anticipated during the remainder of 2016. During the nine-month period ended September 30, 2016, the Highlander well was shut-in for approximately one month for well and facility maintenance activities and resumed production on February 26, 2016. The Royalty Trust's only other sources of liquidity are mandatory annual contributions, any loans and the required standby reserve account or letter of credit from FCX.

FCX has agreed to pay annual trust expenses up to a maximum amount of \$350,000, with no right of repayment or interest due, to the extent the Royalty Trust lacks sufficient funds to pay administrative expenses. No such contributions were made during the three- or nine-month periods ended September 30, 2016. During the nine-month period ended September 30, 2015, FCX contributed \$350,000 to the Royalty Trust with respect to this arrangement. In addition to such annual contributions, FCX has agreed to lend money, on an unsecured, interest-free basis, to the Royalty Trust to fund the Royalty Trust's ordinary administrative expenses as set forth in the royalty trust agreement. Since inception, FCX has loaned \$650,000 to the Royalty Trust under this arrangement, none of which had been repaid as of September 30, 2016.

FCX has also agreed to provide and maintain a \$1.0 million stand-by reserve account or an equivalent letter of credit for the benefit of the Royalty Trust to enable the Trustee to draw on such reserve account or letter of credit to pay obligations of the Royalty Trust if its funds are inadequate to pay its obligations at any time. Currently, with the consent of the Trustee, FCX may reduce the reserve account or substitute a letter of credit with a different face amount for the original letter of credit or any substitute letter of credit. In connection with this arrangement, FCX has provided \$1.0 million in the form of a reserve fund cash account to the Royalty Trust. As of September 30, 2016, the Royalty Trust had not drawn any funds from the reserve account, and FCX had not requested a reduction of such reserve account. As a result, any material adverse change in FCX's or McMoRan's financial condition or results of operations could materially and adversely affect the Royalty Trust and the underlying royalty trust units, if FCX requests and the Trustee consents, to reduce the \$1.0 million reserve cash fund.

The Royalty Trust is a passive entity and, except for the Royalty Trust's ability to borrow from FCX as described above, the Royalty Trust is prohibited from engaging in loan transactions. The Royalty Trust periodically holds short-term investments acquired with funds that it holds for the payment of its administrative and other expenses. Because of the short-term nature of these investments and limitations on the types of investments that the Royalty Trust may hold, the Royalty Trust is not subject to any material interest rate risk. The Royalty Trust does not engage in transactions in foreign currencies that could expose the Royalty Trust unitholders to foreign currency-related market risk, nor does the Royalty Trust engage in any other financial derivative transactions.

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

The downward pressure on oil and natural gas prices that began in mid-2014 has continued in 2016. During the third quarter of 2016, the New York Mercantile Exchange natural gas price fluctuated from a low of \$2.52 per million British thermal units (MMBtu) to a high of \$3.10 per MMBtu and the West Texas Intermediate (WTI) crude oil price

ranged from a low of \$39.19 per barrel to a high of \$49.35 per barrel. On September 30, 2016, the spot prices for natural gas and crude oil were \$2.91 per MMBtu and \$48.24 per barrel, respectively. During the fourth quarter of 2016, oil prices have further decreased and the WTI crude oil price was \$44.07 per barrel on November 4, 2016. Any additional future production will be subject to uncertainties, many of which will be beyond McMoRan's control, including the timing and flow rates associated with the initial production from discoveries, weather-related factors, shut-in or recompletion activities on any of the subject interests' related properties or on third-party owned pipelines or facilities and the state of the financial and commodity markets. Any of these factors, among others, could materially adversely affect the Royalty Trust. For more information regarding risks associated with oil and gas production and commodity price fluctuations, see Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

#### Item 4. Controls and Procedures.

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

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

(b) Changes in internal control over financial reporting. During the quarter ended September 30, 2016, there has been no change in the Royalty Trust's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Royalty Trust's internal control over financial reporting. The Trustee notes for purposes of clarification that it has no authority over, and makes no statement concerning, the internal control over financial reporting of FCX.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings.

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

#### Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in Part I, Item 1A. "Risk Factors" in the Royalty Trust's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

#### Item 6. Exhibits.

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



SIGNATURE

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

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

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

Date: November 9, 2016

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

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Gulf Coast Ultra Deep Royalty Trust

Exhibit Index

Exhibit Number	Exhibit Title	Filed with this Form 10-Q	Incorporated by Reference Form	File No.	Date Filed
3.1	Composite Certificate of Trust of Gulf Coast Ultra Deep Royalty Trust		10-Q	333-185742	August 12, 2013
10.1	Amended and Restated Royalty Trust Agreement of Gulf Coast Ultra Deep Royalty Trust, dated as of June 3, 2013		8-K	333-185742	June 4, 2013
10.2	Master Conveyance of Overriding Royalty Interest by and between McMoRan Oil & Gas LLC and Gulf Coast Ultra Deep Royalty Trust, dated as of June 3, 2013		8-K	333-185742	June 4, 2013
<u>31</u>	Certification pursuant to Rule 13a-14(a)/15d-14(a)	X			
<u>32</u>	Certification pursuant to 18 U.S.C. Section 1350	X			

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