

Edgar Filing: NORTH EUROPEAN OIL ROYALTY TRUST - Form 10-Q

NORTH EUROPEAN OIL ROYALTY TRUST  
Form 10-Q  
August 30, 2012

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 July 31, 2012 or  
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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 1-8245

NORTH EUROPEAN OIL ROYALTY TRUST

-----  
(Exact name of registrant as specified in its charter)

Delaware

22-2084119

-----  
(State of organization)

-----  
(I.R.S. Employer I.D. No.)

Suite 19A, 43 West Front Street, Red Bank, New Jersey 07701

-----  
(Address of principal executive offices)

(732) 741-4008

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(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 X No  
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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 (Section 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  
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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. (Check one):

Large accelerated filer ----- Accelerated filer X -----  
Non-accelerated filer ----- 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 X  
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Class	Outstanding at July 31, 2012
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Units of Beneficial Interest	9,190,590

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS (NOTE 1)

JULY 31, 2012 AND OCTOBER 31, 2011

(Unaudited)

	2012	2011
ASSETS		
Current assets - - Cash and cash equivalents	\$ 5,704,971	\$ 5,971,866
Producing gas and oil royalty rights, net of amortization (Notes 1 and 2)	1	1
Total Assets	\$ 5,704,972	\$ 5,971,867
LIABILITIES AND TRUST CORPUS		
Current liabilities - - Distributions to be paid to unit owners, paid August 2012 and November 2011	\$ 5,606,261	\$ 5,881,977
Trust corpus (Notes 1 and 2)	1	1
Undistributed earnings	98,710	89,889
Total Liabilities and Trust Corpus	\$ 5,704,972	\$ 5,971,867

The accompanying notes are an integral part

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of these financial statements.

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STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE THREE MONTHS ENDED JULY 31, 2012 AND 2011

(Unaudited)

	2012	2011
German gas, sulfur and oil royalties received	\$ 5,846,833	\$ 6,744,676
Interest income	10,077	11,559
Trust Income	\$ 5,856,910	\$ 6,756,235
Non-related party expenses	243,407	173,040
Related party expenses (Note 3)	24,409	16,568
Trust Expenses	(267,816)	(189,608)
Net Income	\$ 5,589,094	\$ 6,566,627
Net income per unit	\$ .61	\$ .71
Distributions per unit paid or to be paid to unit owners	\$ .61	\$ .71

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

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## STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

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FOR THE NINE MONTHS ENDED JULY 31, 2012 AND 2011  
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(Unaudited)  
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	2012	2011
	-----	-----
German gas, sulfur and oil royalties received	\$18,826,729	\$19,106,466
Interest income	31,634	15,243
	-----	-----
Trust Income	\$18,858,363	\$19,121,709
-----	-----	-----
Non-related party expenses	831,679	710,934
Related party expenses (Note 3)	96,212	81,016
	-----	-----
Trust Expenses	(927,891)	(791,950)
-----	-----	-----
Net Income	\$17,930,472	\$18,329,759
-----	=====	=====
Net income per unit	\$1.95	\$1.99
	=====	=====
Distributions per unit paid or to be paid to unit owners	\$1.95	\$1.99
	=====	=====

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of these financial statements.

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STATEMENTS OF UNDISTRIBUTED EARNINGS (NOTE 1)  
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FOR THE NINE MONTHS ENDED JULY 31, 2012 AND 2011  
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(Unaudited)  
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	2012	2011
	-----	-----
Balance, beginning of period	\$ 89,889	\$ 65,234
Net income	17,930,472	18,329,759
	-----	-----
	18,020,361	18,394,993
Less:		
Current year distributions paid or to be paid to unit owners	17,921,651	18,289,274
	-----	-----
Balance, end of period	\$ 98,710	\$ 105,719
	=====	=====

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of these financial statements.

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STATEMENTS OF CHANGES IN CASH AND CASH EQUIVALENTS (NOTE 1)

FOR THE NINE MONTHS ENDED JULY 31, 2012 AND 2011

(Unaudited)

	2012	2011
Sources of cash and cash equivalents:		
German gas, sulfur and oil royalties	\$18,826,729	\$19,106,466
Interest income	31,634	15,243
	-----	-----
	18,858,363	19,121,709
	-----	-----
Uses of cash and cash equivalents:		
Payment of Trust expenses	927,891	791,950
Distributions paid	18,197,367	16,910,686
	-----	-----
	19,125,258	17,702,636
	-----	-----
Net increase (decrease) in cash and cash equivalents during the period	(266,895)	1,419,073
Cash and cash equivalents, beginning of period	5,971,866	5,211,965
	-----	-----
Cash and cash equivalents, end of period	\$ 5,704,971	\$ 6,631,038
	=====	=====

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NORTH EUROPEAN OIL ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(1) Summary of significant accounting policies:

Basis of accounting -

The accompanying financial statements of North European Oil Royalty Trust (the "Trust") are prepared in accordance with the rules and regulations of the SEC. Financial statement balances and financial results are presented on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States ("GAAP basis"). In the opinion of management, all adjustments that are considered necessary for a fair presentation of these financial statements, including adjustments of a normal, recurring nature, have been included.

On a modified cash basis, revenue is earned when cash is received and expenses are incurred when cash is paid. GAAP basis financial statements disclose revenue as earned and expenses as incurred, without regard to receipts or payments. The modified cash basis of accounting is utilized to permit the accrual for distributions to be paid to unit owners (those distributions approved by the Trustees for the Trust). The Trust's distributable income represents royalty income received by the Trust during the period plus interest income less any expenses incurred by the Trust, all on a cash basis. In the opinion of the Trustees, the use of the modified cash basis of accounting provides a more meaningful presentation to unit owners of the results of operations of the Trust.

The results of any interim period are not necessarily indicative of the results to be expected for the fiscal year. These financial statements should be read in conjunction with the financial statements that were included in the Trust's Annual Report on Form 10-K for the year ended October 31, 2011 (the "2011 Form 10-K"). The Statements of Assets, Liabilities and Trust Corpus included herein contain information from the Trust's 2011 Form 10-K.

Producing gas and oil royalty rights -

The rights to certain gas and oil royalties in Germany were transferred to the Trust at their net book value by North European Oil Company (the "Company") (see Note 2). The net book value of the royalty rights has been reduced to one dollar (\$1) in view of the fact that the remaining net book value of royalty rights is de minimis relative to annual royalties received and distributed by the Trust and does not bear any meaningful relationship to the fair value of such rights or the actual amount of proved producing reserves.

Federal and state income taxes -

The Trust, as a grantor trust, is exempt from federal income taxes



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under a private letter ruling issued by the Internal Revenue Service. The Trust has no state income tax obligations.

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### Cash and cash equivalents - -----

Included in cash and cash equivalents are amounts deposited in bank accounts and amounts invested in certificates of deposit and U. S. Treasury bills with original maturities of three months or less from the date of purchase. The investment options available to the Trust are limited in accordance with specific provisions of the Trust Agreement. As of July 31, 2012, the uninsured amounts held in the Trust's U.S. bank accounts were approximately \$5,325,000. In addition, approximately \$6,000 was held in the Trust's German account at July 31, 2012.

### Net income per unit - -----

Net income per unit is based upon the number of units outstanding at the end of the period. As of both July 31, 2012 and 2011, there were 9,190,590 units of beneficial interest outstanding.

### New accounting pronouncements - -----

The Trust is not aware of any recently issued, but not yet effective, accounting standards that would be expected to have a significant impact on the Trust's financial position or results of operations.

### Reclassifications - -----

Certain amounts in the financial statements of prior periods have been reclassified to conform to the current period presentation for comparative purposes.

### (2) Formation of the Trust: -----

The Trust was formed on September 10, 1975. As of September 30, 1975, the Company was liquidated and the remaining assets and liabilities of the Company, including its royalty rights, were transferred to the Trust. The Trust, on behalf of the owners of beneficial interest in the Trust, holds overriding royalty rights covering gas and oil production in certain concessions or leases in the Federal Republic of Germany. These rights are held under contracts with local German exploration and development subsidiaries of Exxon Mobil Corp. and the Royal Dutch/Shell Group of Companies. Under these contracts, the Trust receives various percentage royalties on the proceeds of the sales of certain products from the areas involved. At the present time, royalties are received for sales of gas well gas, oil well gas, crude oil, condensate and sulfur.

### (3) Related party transactions: -----

John R. Van Kirk, the Managing Director of the Trust, provides office space and office services to the Trust at cost. For such office space and office services, the Trust reimbursed the Managing Director \$6,173 and \$7,699 in the third quarter of fiscal 2012 and 2011, respectively. For such office space and office services, the Trust reimbursed the Managing Director \$18,422 and \$17,953 in the first nine months of fiscal 2012 and 2011, respectively.

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Lawrence A. Kobrin, a Trustee of the Trust, is a Senior Counsel at Cahill Gordon & Reindel LLP, which serves as counsel to the Trust. For the third quarter of fiscal 2012 and 2011, the Trust paid Cahill Gordon & Reindel LLP \$18,236 and \$8,869 for legal services, respectively. For the first nine months of fiscal 2012 and 2011, the Trust paid Cahill Gordon & Reindel LLP \$77,790 and \$63,063 for legal services, respectively.

(4) Employee benefit plan:

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The Trust has established a savings incentive match plan for employees (SIMPLE IRA) that is available to both employees of the Trust, one of whom is the Managing Director. The Trustees authorized the Trust to make contributions to the accounts of the employees, on a matching basis, of up to 3% of cash compensation paid to each employee effective for the 2011 and 2012 calendar years.

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

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Executive Summary

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The Trust is a passive fixed investment trust which holds overriding royalty rights, receives income under those rights from certain operating companies, pays its expenses and distributes the remaining net funds to its unit owners. As mandated by the Trust Agreement, distributions of income are made on a quarterly basis. These distributions, as determined by the Trustees, constitute substantially all of the funds on hand after provision is made for Trust expenses then anticipated.

The Trust does not engage in any business or extractive operations of any kind in the areas over which it holds royalty rights and is precluded from engaging in such activities by the Trust Agreement. There are no requirements, therefore, for capital resources with which to make capital expenditures or investments in order to continue the receipt of royalty revenues by the Trust.

The properties of the Trust, which the Trust and Trustees hold pursuant to the Trust Agreement on behalf of the unit owners, are overriding royalty rights on sales of gas, sulfur and oil under certain concessions or leases in the Federal Republic of Germany. The actual leases or concessions are held either by Mobil Erdgas-Erdol GmbH ("Mobil Erdgas"), a German operating subsidiary of the Exxon Mobil Corp. ("Exxon Mobil"), or by Oldenburgische Erdolgesellschaft ("OEG"). The Oldenburg concession is the primary area from which the natural gas, sulfur and oil are extracted and provides nearly 100% of all the royalties received by the Trust. The Oldenburg concession (1,398,000 acres) covers virtually the entire former Principality of Oldenburg and is located in the federal state of Lower Saxony.

In 2002, Mobil Erdgas and BEB Erdgas und Erdol GmbH ("BEB"), a joint venture of Exxon Mobil and the Royal Dutch/Shell Group of Companies, formed a company ExxonMobil Production Deutschland GmbH ("EMPG"), a unified exploration and production venture, to carry out all exploration, drilling and production activities. All sales activities are still handled by the operating companies, either Mobil Erdgas or BEB.

The operating companies pay monthly royalties to the Trust based on their sales of natural gas, sulfur and oil. Of these three products, natural gas provided approximately 94.76% of the total royalties in the quarter just ended. The amount of royalties paid to the Trust is primarily based on four factors: the amount of gas sold, the price of that gas, the area from which the gas is sold, and the exchange rate.

Effective with the Trust's third quarter of fiscal 2010, a new royalty payment schedule was fully implemented. At approximately the 25th of the months of January, April, July and October, the operating companies calculate the amount of gas sold during the previous calendar quarter and determine the amount of royalties that were payable to the Trust based on those sales. This amount forms the basis for royalty payments for the Trust's upcoming fiscal quarter and for any adjustment for the prior calendar quarter. For example, on January 25th the operating companies calculate gas sales and attributable royalties payable for the months of October through December. This amount is divided into thirds and forms the monthly royalty payments

(payable on the 15th of each month) to the Trust for its fiscal quarter running from February through April. Continuing in this example, at the same time that the operating companies determine the actual amount of royalties that were payable for the months of October through December, they look at the actual amount of royalties that were paid to the Trust during the months of November through January and calculate the difference between what was payable and what was paid. Additional amounts payable by the operating companies would be paid immediately in January and any overpayment would be deducted from the February payment. The operating companies continue their calculations through the calendar year. In September of each year, the operating companies make the final determination of any necessary royalty adjustments for the prior calendar year. The Trust's German accountants have completed their examination of the royalty calculations covering calendar years 2009 and 2010 and no substantive errors were discovered.

There are two types of natural gas found within the Oldenburg concession, sweet gas and sour gas. Sweet gas has little or no contaminants and needs no treatment before it can be sold. In recent years sweet gas has assumed the role of swing producer. During periods of high demand, the production of sweet gas is increased as necessary. During the summer months, sweet gas production is reduced due to a general decline in demand. Sour gas, in comparison, must be processed at either the Grossenkneten or the Norddeutsche Erdgas-Aufbereitungs GmbH ("NEAG") desulfurization plants before it can be sold. The desulfurization process removes hydrogen sulfide and other contaminants. The hydrogen sulfide in gaseous form is converted to sulfur in a solid form and sold separately. For efficiency purposes, the desulfurization plants are operated at capacity on a continual basis. Any excess production from the plants is stored in underground storage for higher demand periods. As needed, the operators conduct maintenance on the plants, generally during the summer months when demand is lower. EMPG has indicated that it will be conducting scheduled maintenance work at the Grossenkneten desulfurization plant during the period from September 4 to October 11, 2012. If the operator is consistent with past practice, overall production during this maintenance period would be reduced by approximately one-third.

Under one set of rights covering the western part of the Oldenburg concession (approximately 662,000 acres), the Trust receives a royalty payment of 4% on gross receipts from sales by Mobil Erdgas of gas well gas, oil well gas, crude oil and condensate (the "Mobil Agreement"). Under the Mobil Agreement, there is no deduction of costs prior to the calculation of royalties from gas well gas and oil well gas, which together account for approximately 98% of all the royalties under this agreement. Historically, the Trust has received significantly greater royalty payments under the Mobil Agreement (as compared to the OEG Agreement described below) due to the higher royalty rate specified by that agreement.

The Trust is also entitled under the Mobil Agreement to receive a 2% royalty on gross receipts of sales of sulfur obtained as a by-product of sour gas produced from the western part of Oldenburg. The payment of the sulfur royalty is conditioned upon sales of sulfur by Mobil Erdgas at a selling price above an agreed upon base price. This base price is adjusted annually by an inflation index. In the first nine months of fiscal 2012 and 2011, the Trust received \$425,001 and \$318,061, respectively, in sulfur royalties under the Mobil Agreement. The Trust was entitled to receive a sulfur royalty payment during the quarter just ended. However, due to an error, the Mobil-Erdgas sulfur payment of \$191,311 for the Trust's third fiscal quarter was delayed until early in the Trust's fourth fiscal quarter.

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Under another set of rights covering the entire Oldenburg concession and pursuant to the agreement with OEG, the Trust receives royalties at the rate of 0.6667% on gross receipts from sales by BEB of gas well gas, oil well gas, crude oil, condensate and sulfur (removed during the processing of sour gas) less a certain allowed deduction of costs (the "OEG Agreement"). Under the OEG Agreement, 50% of the field handling, treatment and transportation costs, as reported for state royalty purposes, are deducted from the gross sales receipts prior to the calculation of the royalty to be paid to the Trust.

In 2008, NV Nederlandse Gasunie (the state owned Dutch gas distribution company) completed the purchase of BEB's North German gas distribution and transmission network. At the request of the Trustees and in conjunction with its biennial examination of the operating companies for the 2009-2010 period, the Trust's German accountants confirmed that transportation costs continued in accordance with the authorized indexed flat rate throughout this period and that the method of royalty calculation has not been affected by this pipeline sale.

Under the Mobil and OEG Agreements, the gas is sold to various distributors under long term contracts which delineate, among other provisions, the timing, manner, volume and price of the gas sold. The pricing mechanisms contained in these contracts include a delay factor of three to six months and use the price of light heating oil in Germany as one of the primary pricing components. Since Germany must import a large percentage of its energy requirements, the U.S. dollar price of oil on the international market has a significant impact on the price of light heating oil and a delayed impact on the price of gas. The Trust does not have access to the specific sales contracts under which gas from the Oldenburg concession is sold. Working under a confidentiality agreement with the operating companies, the Trust's German accountant examines these contracts periodically on behalf of the Trust to verify the correctness of application of the Agreement formulas for the computation of royalty payments.

For unit owners, changes in the dollar value of the Euro have both an immediate and long-term impact. The immediate impact is from the exchange rate that is applied at the time the royalties, paid to the Trust in Euros, are converted into U.S. dollars at the time of their transfer from Germany to the United States. In relation to the dollar, a stronger Euro would yield more dollars and a weaker Euro would yield less dollars. The long-term impact relates to the mechanism of gas pricing contained in the gas sales contracts negotiated by the operating companies. These gas sales contracts often use the price of German light heating oil as one of the primary pricing factors by which the price of gas is determined. The price of German light heating oil, which is a refined product, is largely determined by the price of the imported crude oil from which it was refined. Oil on the international market is priced in dollars. However, when oil is imported into Germany it is purchased in Euros, and at this point the dollar value of the Euro becomes relevant. A weaker Euro would buy less oil making that oil and the subsequently refined light heating oil more expensive. A stronger Euro would buy more oil making that oil and the subsequently refined light heating oil less expensive. Since changes in the price of German light heating oil are subsequently reflected in the price of gas through the gas sales contracts, the dollar/Euro relationship can make the prices of gas higher or lower. The changes in gas prices that result from changes in the prices of German light heating oil are only reflected after a built-in delay of three to six months as specified in the individual gas sales contracts.

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Seasonal demand factors affect the income from royalty rights insofar as they relate to energy demands and increases or decreases in prices, but on average they are generally not material to the regular annual income received under the Trust's royalty rights.

The Trust has no means of ensuring continued income from overriding royalty rights at their present level or otherwise. The Trust's consultant in Germany provides general information to the Trust on the German and European economies and energy markets. This information provides a context in which to evaluate the actions of the operating companies. The Trust's consultant receives reports from EMPG with respect to current and planned drilling and exploration efforts. However, EMPG continues to limit the information flow to that which is required by German law.

The low level of administrative expenses of the Trust limits the effect of inflation on its financial condition. Sustained price inflation, which would be reflected in sales prices, along with sales volumes, form the basis on which the royalties paid to the Trust are computed. The impact of inflation or deflation on energy prices in Germany is delayed by the use, in certain long-term gas sales contracts, of a delay factor of three to six months prior to the application of any changes in light heating oil prices to gas prices.

Results: Third Quarter Fiscal 2012 Versus Third Quarter Fiscal 2011

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For the third quarter of fiscal 2012, the Trust's net income was \$5,589,094, a decrease of 14.89% from the net income of \$6,566,627 for the third quarter of fiscal 2011. Gross royalties received for the third quarter of fiscal 2012 were \$5,846,833, a decrease of 13.31% as compared to \$6,744,676 for the third quarter of fiscal 2011. These royalties were derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the second calendar quarter of 2012. A distribution of 61 cents per unit has been paid on August 29, 2012 to owners of record as of August 10, 2012.

	3rd Fiscal Qtr. Ended 7/31/2012	3rd Fiscal Qtr. Ended 7/31/2011	Percentage Change
Total Royalties Received	\$5,846,833	\$6,744,676	- 13.31%
Net Income	\$5,589,094	\$6,566,627	- 14.89%
Distribution per Unit	\$0.61	\$0.71	- 14.08%

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The amount of gas royalties payable to the Trust is based primarily on four factors: the amount of gas sold, the price of that gas, the area from which the gas is sold and the exchange rate. Gas royalty income under both the Mobil and the OEG Agreements in the third quarter of 2012 (as shown in the table below) was lower in comparison to income received during the third quarter of 2011 due primarily to a combination of lower gas sales and lower average Euro/dollar exchange rates in the third quarter of 2012. For comparison purposes to equivalent U.S. measurements, gas prices in Ecents/Kwh are converted using the average exchange rate into the more familiar term of dollars per thousand cubic feet (\$/Mcf).

	3rd Fiscal Qtr. Ended 7/31/2012	3rd Fiscal Qtr. Ended 7/31/2011	Percentage Change
<b>Mobil Agreement</b>			
Gas Sales (Bcf) (1)	9.140	10.671	- 14.35%
Gas Prices (Ecents/Kwh) (2)	2.6666	2.3838	+ 11.86%
Average Exchange Rate (3)	1.2530	1.4091	- 11.08%
Gas Royalties	\$3,510,504	\$4,114,508	- 14.68%
Gas Prices (\$/Mcf)	\$ 9.60	\$ 9.64	- 0.41%
<b>OEG Agreement</b>			
Gas Sales (Bcf)	26.254	29.595	- 11.29%
Gas Prices (Ecents/Kwh)	2.5079	2.5379	- 1.18%
Average Exchange Rate	1.2488	1.4148	- 11.73%
Gas Royalties	\$1,391,324	\$1,830,995	- 24.01%
Gas Prices (\$/Mcf)	\$ 8.77	\$10.05	- 12.74%

(1) Billion cubic feet

(2) Euro cents per Kilowatt hour

(3) Based on average exchange rates of cumulative royalty transfers

If we exclude the effects of differences in prices and average exchange rates, the combination of royalty rates on gas sold from western Oldenburg results in an effective royalty rate approximately seven times higher than the royalty rate on gas sold from eastern Oldenburg. This is of particular significance to the Trust since gas sold from western Oldenburg provides the bulk of royalties paid to the Trust. For the quarter just ended, gas sales from western Oldenburg accounted for only 34.82% of all gas sales. However, royalties on these gas sales provided approximately 81.17% or \$4,497,280 out of a total of \$5,540,292 attributable to gas sales from the Oldenburg concession.

Per the terms of the Trust Agreement, excess funds temporarily held by the Trust are held in a money market account or are invested in certificates of deposit or U.S. Treasury Bills. For the quarter just ended, Trust interest income remained at a relatively minor level due to the low interest rates applicable during the period and the reduced funds available for investment.

Trust expenses for the third quarter of fiscal 2012 increased 41.25% or \$78,208 to \$267,816 in comparison to the prior year's equivalent period. This increase in expenses is due to legal costs (including fees payable upon dismissal thereof) associated with the litigation in Germany and the conclusion of the royalty examination for 2009-2010.

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the Trust at July 31, 2012, compared to that at fiscal year-end (October 31, 2011), shows a decrease in assets due to lower royalty receipts during the third quarter of fiscal 2012.

Results: First Nine Months of Fiscal 2012 Versus First Nine Months of

-----  
Fiscal 2011  
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For the first nine months of fiscal 2012, the Trust's net income was \$17,930,472, a decrease of 2.18% from the net income of \$18,329,759 for the first nine months of fiscal 2011. Gross royalties received for the first nine months of fiscal 2012 were \$18,826,729, a decrease of 1.46% as compared to \$19,106,466 for the first nine months of fiscal 2011. These royalties were primarily derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the fourth calendar quarter of 2011 and the first two calendar quarters of 2012. For the nine month periods ended July 31, 2012 and 2011, total distributions were equal to \$1.95 and \$1.99 per unit, respectively.

	Nine Months Ended 7/31/2012	Nine Months Ended 7/31/2011	Percentage Change
Total Royalties Received	\$18,826,729	\$19,106,466	- 1.46%
Net Income	\$17,930,472	\$18,329,759	- 2.18%
Distributions per Unit	\$1.95	\$1.99	- 2.01%

Gas royalty income under both the Mobil and the OEG Agreements in the first nine months of 2012 (as shown in the table below) was lower in comparison to income received during the first nine months of 2011 due primarily to a combination of lower gas sales and lower average exchange rates. These two factors more than offset an increase in gas prices. For comparison purposes to equivalent U.S. measurements, gas prices in Ecents/Kwh are converted using the average exchange rate into more familiar terms (\$/Mcf).

	Nine Months Ended 7/31/2012	Nine Months Ended 7/31/2011	Percentage Change
<b>Mobil Agreement</b>			
Gas Sales (Bcf)	28.521	33.434	- 14.69%
Gas Prices (Ecents/Kwh)	2.8004	2.4221	+ 15.62%
Average Exchange Rate	1.2871	1.3820	- 6.87%
Gas Royalties	\$11,807,667	\$12,851,624	- 8.12%
Gas Prices (\$/Mcf)	\$10.35	\$ 9.61	+ 7.70%
<b>OEG Agreement</b>			
Gas Sales (Bcf)	80.545	89,905	- 10.41%
Gas Prices (Ecents/Kwh)	2.8399	2.5873	+ 9.76%
Average Exchange Rate	1.2871	1.3858	- 7.12%
Gas Royalties	\$5,045,294	\$5,572,880	- 9.47%
Gas Prices (\$/Mcf)	\$10.22	\$10.04	+ 1.79%

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For the nine months just ended, gas sales from western Oldenburg accounted for only 35.41% of all gas sales. However, royalties on these



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gas sales provided approximately 80.40% or \$14,130,906 out of a total of \$17,576,318 attributable to gas sales from the Oldenburg concession.

Interest income was higher reflecting the shift to a money market account for holding funds prior to the distribution. Interest income for the nine month period of fiscal 2012 increased 107.53% to \$31,634 from \$15,243 in the first nine month period of fiscal 2011.

Trust expenses for the nine month period of fiscal 2012 increased 17.17% or \$135,941 to \$927,891 in comparison to \$791,950 for the prior fiscal year's equivalent period. This increase in expenses is due to legal costs associated with the litigation in Germany (including fees payable upon dismissal thereof) and the conclusion of the royalty examination for 2009-2010.

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This report on Form 10-Q may contain forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future expectations and events or conditions concerning the Trust. Many of these statements are based on information provided to the Trust by the operating companies or by consultants using public information sources. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in any forward-looking statements. These include:

1. risks and uncertainties concerning levels of gas production and gas sale prices, general economic conditions and currency exchange rates;
2. the ability or willingness of the operating companies to perform under their contractual obligations with the Trust;
3. ongoing litigation and other potential disputes with the operating companies and the resolution thereof; and
4. the risk factors set forth under Item 1A of the Trust's Annual Report on Form 10-K for the year ended October 31, 2011.

All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and are generally beyond the control of the Trust. New factors emerge from time to time and it is not possible for the Trust to predict all such factors or to assess the impact of each such factor on the Trust. Any forward-looking statement speaks only as of the date on which such statement is made, and the Trust does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

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Item 1. Legal Proceedings.  
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The Trust is not a party to any material pending legal proceedings having decided, after consultation with its advisors, that it will not proceed with the litigation and it will not appeal the District Court of Hannover's dismissal of its claim on May 9, 2012 with respect to a claim for royalties previously reflected in the Trust's 2011 Form 10-K.

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

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The Trust does not engage in any trading activities with respect to possible foreign exchange fluctuations. The Trust does not use any financial instruments to hedge against possible risks related to foreign exchange fluctuations. The market risk is negligible because standing instructions at its German bank require the bank to process conversions and transfers of royalty payments as soon as possible following their receipt. The Trust does not engage in any trading activities with respect to possible commodity price fluctuations.

### Item 4. Controls and Procedures.

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The Trust maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Trust is recorded, processed, summarized, accumulated and communicated to its management, which consists of the Managing Director, to allow timely decisions regarding required disclosure, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

The Managing Director has performed an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of July 31, 2012. Based on that evaluation, the Managing Director concluded that the Trust's disclosure controls and procedures were effective as of July 31, 2012.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that occurred during the third quarter of fiscal 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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Item 6. Exhibits.

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- Exhibit 31. Certification of Chief Executive Officer  
Chief Financial Officer pursuant to Section 302  
of the Sarbanes-Oxley Act of 2002
- Exhibit 32. Certification of Chief Executive Officer and  
Chief Financial Officer pursuant to Section 906  
of the Sarbanes-Oxley Act of 2002

SIGNATURE

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

NORTH EUROPEAN OIL ROYALTY TRUST

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(Registrant)

/s/ John R. Van Kirk

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John R. Van Kirk  
Managing Director

Dated: August 30, 2012