

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

NORTH EUROPEAN OIL ROYALTY TRUST  
Form 10-Q  
May 30, 2017

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 April 30, 2017 or  
-----

Transition report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

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

Commission file number 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

-----  
(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

-----

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

-2-

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  
-----

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  
-----

Class	Outstanding at April 30, 2017
-----	-----
Units of Beneficial Interest	9,190,590

-3-

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

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

APRIL 30, 2017 AND OCTOBER 31, 2016

(Unaudited)

	2017	2016
ASSETS		
Current assets - - Cash and cash equivalents	\$ 1,858,813	\$ 1,165,347
Producing gas and oil royalty rights, net of amortization (Notes 1 and 2)	1	1
Total Assets	\$ 1,858,814	\$ 1,165,348
LIABILITIES AND TRUST CORPUS		
Current liabilities - - Distributions to be paid to unit owners, to be paid May 2017 and paid November 2016	\$ 1,746,212	\$ 1,102,871
Trust corpus (Notes 1 and 2)	1	1
Undistributed earnings	112,601	62,476
Total Liabilities and Trust Corpus	\$ 1,858,814	\$ 1,165,348

The accompanying notes are an integral part

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

of these financial statements.

-4-

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE THREE MONTHS ENDED APRIL 30, 2017 AND 2016

(Unaudited)

	2017	2016
Gas, sulfur and oil royalties received	\$ 1,918,830	\$ 2,333,670
Interest income	786	1,695
Trust Income	1,919,616	2,335,365
Non-related party expenses	(207,114)	(205,310)
Related party expenses (Note 3)	(12,593)	(29,691)
Trust Expenses	(219,707)	(235,001)
Net Income	\$ 1,699,909	\$ 2,100,364
Net income per unit	\$ .18	\$ .23
Distributions per unit paid or to be paid to unit owners	\$ .19	\$ .24

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

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

-5-

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE SIX MONTHS ENDED APRIL 30, 2017 AND 2016

(Unaudited)

	2017	2016
Gas, sulfur and oil royalties received	\$ 3,643,516	\$ 4,166,141
Interest income	1,576	2,795
Trust Income	3,645,092	4,168,936
Non-related party expenses	(432,152)	(440,653)
Related party expenses (Note 3)	(38,014)	(54,232)
Trust Expenses	(470,166)	(494,885)
Net Income	\$ 3,174,926	\$ 3,674,051
Net income per unit	\$0.35	\$0.40
Distributions per unit paid or to be paid to unit owners	\$0.34	\$0.40

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

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

-6-

STATEMENTS OF UNDISTRIBUTED EARNINGS (NOTE 1)  
 -----  
 FOR THE SIX MONTHS ENDED APRIL 30, 2017 AND 2016  
 -----

(Unaudited)  
 -----

	2017	2016
	-----	-----
Balance, beginning of period	\$ 62,476	\$ 79,030
Net income	3,174,926	3,674,051
	-----	-----
	3,237,402	3,753,081
Less:		
Current year distributions paid or to be paid to unit owners	3,124,801	3,676,236
	-----	-----
Balance, end of period	\$ 112,601	\$ 76,845
	=====	=====

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

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

-7-

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

FOR THE SIX MONTHS ENDED APRIL 30, 2017 AND 2016

(Unaudited)

	2017	2016
Sources of Cash and Cash Equivalents:		
Gas, sulfur and oil royalties received	\$ 3,643,516	\$ 4,166,141
Interest income	1,576	2,795
	3,645,092	4,168,936
Uses of Cash and Cash Equivalents:		
Payment of Trust expenses	470,166	494,885
Distributions paid	2,481,460	3,584,329
	2,951,626	4,079,214
Net increase (decrease) in cash and cash equivalents during the period	693,466	89,722
Cash and cash equivalents, beginning of period	1,165,347	2,192,865
Cash and cash equivalents, end of period	\$ 1,858,813	\$ 2,282,587

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

-8-

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, 2016 (the "2016 Form 10-K"). The Statements of Assets, Liabilities and Trust Corpus included herein contain information from the Trust's 2016 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.



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

-9-

## Federal and state income taxes - -----

The Trust, as a grantor trust, is exempt from federal income taxes under a private letter ruling issued by the Internal Revenue Service. The Trust has no state income tax obligations.

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

Cash and cash equivalents are defined as amounts deposited in bank accounts and amounts invested in certificates of deposit and U. S. Treasury bills with original maturities generally 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 April 30, 2017, the uninsured amount held in the Trust's U.S. bank accounts was \$1,600,226. In addition, the Trust held Euros 9,875, the equivalent of \$10,759, in its German bank account at April 30, 2017.

## 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 April 30, 2017 and 2016, 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.

## (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 ExxonMobil 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 \$6,232 and \$7,557 in the second quarter of fiscal 2017 and 2016, respectively. For such office space and office services, the Trust reimbursed the Managing Director \$12,636 and \$12,830 in the first six months of fiscal 2017 and 2016, respectively.

-10-

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 second quarter of fiscal 2017 and 2016, the Trust paid Cahill Gordon & Reindel LLP \$6,361 and \$22,134 for legal services, respectively. For the first six months of fiscal 2017 and 2016, the Trust paid Cahill Gordon & Reindel LLP \$25,378 and \$41,402 for legal services, respectively.

(4) Employee benefit plan:

-----

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 have 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 2017 and 2016 calendar years.

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

-----  
Executive Summary  
-----

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 ExxonMobil Corp. ("ExxonMobil"), or by Oldenburgische Erdolgesellschaft ("OEG"). The Oldenburg concession is the primary area from which the natural gas, sulfur and oil are extracted and currently provides 100% of all the royalties received by the Trust. The Oldenburg concession (approximately 1,386,000 acres) covers virtually the entire former Grand Duchy of Oldenburg and is located in the German federal state of Lower Saxony.

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

Vermilion Energy Inc. ("Vermilion"), a Canadian based international oil and gas producer, entered into a Farm-In Agreement (the "Farm-In Agreement") with Mobil Erdgas and BEB effective as of January 1, 2016. The Trust has been advised by its consultant in Germany that the Farm-In Agreement specifies that Vermilion has acquired an interest in various portions of a concession or areas owned by Mobil Erdgas and BEB. Three of these licenses cover the three northernmost areas of the Oldenburg concession. The Farm-In Agreement commits Vermilion to drill 11 exploratory wells over the next five years. Three of these wells will be drilled in areas subject to the Trust's royalties. If a well in the area subject to the Trust's royalties is a discovery, Vermilion's participation in the production and sale will be 50%. Vermilion's participation in the development of any well does not impact the Trust's royalty interest and the sale of that gas or oil would be subject to the relevant royalty contract. The Trust's German consultant has confirmed that Vermilion will lead the development of its first well within the Oldenburg concession with a possible start time in 2020. The planned well-site is located in the western portion of the area designated Oldenburg-Land, the southernmost area of the three

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

-12-

areas within the concession subject to Vermilion's Farm-In Agreement. Vermilion's well is intended to develop the Rotliegend (Red Sandstone) formation, a previously undeveloped productive zone within the concession. Additionally, in accordance with the terms of the Farm-In Agreement, Vermilion will drill two other wells within the Oldenburg concession, one in Jeverland and one in Jade-Weser. No details concerning these wells are available at this date.

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 93% of the cumulative royalty income received in fiscal 2017. 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.

On 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 is divided into thirds and forms the monthly royalty payments (payable on the 15th of each month) to the Trust for its upcoming fiscal quarter. At the same time that the operating companies determine the actual amount of royalties that were payable for the prior calendar quarter, they look at the actual amount of royalties that were paid to the Trust for that period and calculate the difference between what was paid and what was payable. Additional amounts payable by the operating companies would be paid immediately and any overpayment would be deducted from the payment for the first month of the following fiscal quarter. In September of each year, the operating companies make the final determination of any necessary royalty adjustments for the prior calendar year with a positive or negative adjustment made accordingly. The Trust's German accountants review the royalty calculations on a biennial basis.

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. Sour gas, in comparison, must be processed at the Grossenkneten desulfurization plant 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. As needed, EMPG conducts maintenance on the plant generally during the summer months when demand is lower. The maintenance for 2017 was conducted during the period of March through mid-April. The operating companies have informed the Trust that, to promote greater efficiency and cost effectiveness, the production capacity of Grossenkneten will be reduced beginning in 2017. This reduction in capacity should have no impact on the operator's ability to handle sour gas processing at current levels of production. There is no major maintenance shutdown planned for 2018.

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 accounted for approximately 98% of the cumulative royalty income received under this agreement in fiscal 2017. Historically, the Trust has received significantly greater royalty payments under the Mobil Agreement, as compared to the OEG

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

-13-

Agreement described below, due to the higher royalty rate specified by that agreement.

The Trust is also entitled under the Mobil Sulfur 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 six months of fiscal 2017, the Trust received \$84,405 in sulfur royalties under the Mobil Sulfur Agreement. In the first six months of fiscal 2016, the effects of negative adjustments, which corrected a previous series of errors made by the operating companies, resulted in net negative sulfur royalty income of \$127,370.

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 and treatment 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 addition to the Oldenburg area, the Trust also holds overriding royalties at various rates on a number of currently non-producing leases of various sizes in other areas of Germany. One of these leases, Grosses Meer, was formerly active but provided no royalties during fiscal 2016, 2015 and 2014. Vermilion is scheduled to participate in a new well to be drilled in Grosses Meer but no details are available at this date.

On August 26, 2016, the Trust executed amendments to its existing royalty agreements with OEG and Mobil establishing a new base for the determination of gas prices upon which the Trust's royalties are determined. This new base is set as the state assessment base for natural gas used by the operating companies in their calculation of royalties payable to the State of Lower Saxony. Currently, this change reflects a shift from the use of gas ex-field prices ("contractual prices") to the prices calculated for the German Border Import gas Price ("GBIP"). For simplification purposes, we will use "GBIP" when referring to the current state assessment base.

The change to the GBIP is intended to be revenue neutral for the Trust. Additionally, this change should reduce the scope and cost of the accounting examination, eliminate ongoing disputes with OEG and Mobil regarding sales to related parties, and reduce prior year adjustments to the normally scheduled year-end reconciliation. The new pricing basis will also eliminate certain costs (transportation and plant gas storage), one half of which were previously deductible prior to the royalty calculation under the agreement with OEG.

Actual gas sales from the prior calendar quarter will be multiplied by the average GBIP for a period starting two months earlier and will provide the basis for royalty payments to the Trust during its fiscal quarter. The average GBIP for the corresponding period of actual sales is not available due to the delay in its calculation. For calendar 2016 and forward, the average GBIP under the Mobil and OEG Royalty Agreements will be increased by 1% and 3%, respectively. In March of the following calendar year, an average GBIP for the prior calendar year (weighted on a monthly basis by the respective volume of imported gas) is published. In September of the

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

-14-

following calendar year, EMPG will make a final reconciliation based upon the published yearly average GBIP increased by the respective percentage factor and the total volume of gas sold under the royalty agreements during the prior calendar year. Required additions to royalty amounts already paid will be paid immediately. Required deductions from royalty amounts already paid will be deducted from the next royalty payment due.

The new basis for oil prices would be the published price from the State Authority for Mining, Energy and Geology. There are no percentage adjustments factored into the oil royalty calculation. There was no change in the previous methodology used with regard to the determination of royalties attributable to sales of sulfur.

The Trust itself does not have access to the specific sales contracts under which gas from the Oldenburg concession is sold. However, working under a confidentiality agreement with the operating companies, the Trust's German accountants will confirm that the volume of gas sales corresponds to the amount reported under the sales contracts and that the weighted GBIP was properly calculated and applied in the calculation of royalties payable to the Trust. The Trust's accountants in Germany will begin their examination of the operating companies for 2015 and 2016 in November of 2017.

For unit owners, changes in the dollar value of the Euro have an immediate impact. This impact occurs at the time the royalties, which are paid to the Trust in Euros, are converted into U.S. dollars at the applicable exchange rate and transferred 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.

Seasonal demand factors affect the income from the Trust's 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 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 and the operating companies continue 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 costs. Sustained price inflation would be reflected in sales prices. Sales prices along with sales volumes form the basis on which the royalties paid to the Trust are computed.

Results: Second Quarter of Fiscal 2017 Versus Second Quarter of Fiscal 2016  
-----

Total royalty income during the second quarter of fiscal 2017 was derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the first calendar quarter of 2017. A distribution of 19 cents per unit will be paid on May 31, 2017 to owners of

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

-15-

record as of May 19, 2017. Comparisons of total royalty income received and net income for the second quarter of fiscal 2017 and 2016 are shown below.

	2nd Fiscal Qtr. Ended 4/30/2017	2nd Fiscal Qtr. Ended 4/30/2016	Percentage Change
Total Royalty Income	\$1,918,830	\$2,333,670	- 17.78%
Net Income	\$1,699,909	\$2,100,364	- 19.07%
Distributions per Unit	\$0.19	\$0.24	- 20.83%

The decline in total royalty income between the second quarter of fiscal 2017 and the second quarter of fiscal 2016 resulted primarily from lower gas sales and lower average exchange rates under both the Mobil and OEG Agreements as shown in the table below.

Total royalty income also reflects the inclusion of various positive and negative adjustments that the operators made during the quarter, including corrections from prior periods, as well as the inclusion of Mobil sulfur royalties. There were no adjustments for the second quarter of fiscal 2017. By comparison, in the second quarter of fiscal 2016 the net amount of such adjustments reduced total royalty income by \$96,808. The Trust received separate sulfur royalty payments under the Mobil Agreement of \$42,984 and \$63,951 during the second quarters of fiscal 2017 and 2016, respectively.

The table below is intended to illustrate trends based on actual gas sales in each quarter. Gas royalties shown in the table below are determined based on the actual physical gas sales that occurred during the first calendar quarter of 2017 and the average German Border Import gas Price for the period of November 2016 through January 2017. No adjustments for prior periods are reflected in the gas royalties.

### Gas Data Providing Basis for Fiscal Quarter Royalties

	1st Calendar Qtr. Ended 3/31/2017	1st Calendar Qtr. Ended 3/31/2016	Percentage Change
<b>Mobil Agreement</b>			
Gas Sales (Bcf) (1)	5.934	6.834	- 13.17%
Gas Prices (2) (Ecents/Kwh) (3)	1.7434	1.5622	+ 11.60%
Average Exchange Rate(4)	1.0625	1.1173	- 4.90%
Gas Royalties	\$1,255,366	\$1,369,315	- 8.32%
Gas Prices (\$/Mcf) (5)	\$5.29	\$5.01	+ 5.59%
<b>OEG Agreement</b>			
Gas Sales (Bcf)	18.885	20.434	- 7.58%
Gas Prices (Ecents/Kwh)	1.7779	1.5282	+ 16.34%
Average Exchange Rate	1.0630	1.1171	- 4.84%
Gas Royalties	\$530,792	\$487,877	+ 8.80%
Gas Prices (\$/Mcf)	\$5.29	\$4.79	+ 10.44%

- (1) Billion cubic feet (2) Gas prices derived from November-January period  
(3) Euro cents per Kilowatt hour (4) Based on average exchange rates of cumulative royalty transfers (5) Dollars per thousand cubic feet

Excluding 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

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

-16-

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 calendar quarter ended March 31, 2017, gas sales from western Oldenburg accounted for only 29.04% of all gas sales from the Oldenburg concession. However, royalties on these gas sales provided approximately 78.90%, or \$1,408,707 out of \$1,785,351, of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the second quarter of fiscal 2017 decreased 6.51%, or \$15,294, to \$219,707 from \$235,001 in the second quarter of fiscal 2016. This decrease in expenses reflects the absence of legal costs resulting from the prior completion of the examination of the pricing method proposed by the operating companies and the incorporation of the resulting details in the amendments to the royalty agreements. Trust interest income received during the second quarter of fiscal 2017 decreased to \$786 in comparison to \$1,695 received in the second quarter of fiscal 2016 due to reduced net income.

The current Statement of Assets, Liabilities and Trust Corpus of the Trust at April 30, 2017, compared to that at fiscal year-end (October 31, 2016), shows an increase in assets due to higher royalty receipts during the second quarter of fiscal 2017.

Results: First Six Months of Fiscal 2017 Versus First Six Months of

-----  
Fiscal 2016  
-----

Total royalty income during the first six months of fiscal 2017 was primarily derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the fourth calendar quarter of 2016 and the first calendar quarter of 2017. Comparisons of total royalty income received and net income for the first six months of fiscal 2017 and 2016 are shown below.

	Six Months Ended 4/30/2017	Six Months Ended 4/30/2016	Percentage Change
Total Royalty income	\$3,643,516	\$4,166,141	- 12.54%
Net Income	\$3,174,926	\$3,674,051	- 13.59%
Distributions per Unit	\$0.34	\$0.40	- 15.00%

The decline in total royalty income between first six months of fiscal 2017 and the first six months of fiscal 2016 resulted primarily from lower gas sales, lower gas prices and lower average exchange rates under both the Mobil and OEG Agreements as shown in the table below.

Total royalty income also reflects the inclusion of various positive and negative adjustments that the operators made during the quarter, including corrections from prior periods, as well as the inclusion of Mobil sulfur royalties. The net amount of such adjustments reduced royalties for the first six months of fiscal 2017 by \$17,625. By comparison, the net amount of such adjustments reduced royalties for the first six months of fiscal 2016 by \$691,275. The Trust received separate sulfur royalty payments under the Mobil Agreement of \$84,405 and \$194,324 during the first six months of fiscal 2017 and 2016, respectively.



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

-17-

The table below is intended to illustrate trends based on actual gas sales in each quarter. Gas royalties shown in the table below are determined based on the actual physical gas sales that occurred during the fourth calendar quarter of 2016 and the first calendar quarter of 2017 and the average German Border Import gas Price for the period of August 2016 through January 2017. No adjustments for prior periods are reflected in the gas royalties.

### Gas Data Providing Basis for Six-Month Fiscal Period Royalties

Mobil Agreement	Six Months Ended 3/31/2017	Six Months Ended 3/31/2016	Percentage Change
Gas Sales (Bcf)	12.423	13.438	- 7.55%
Gas Prices (Ecents/Kwh)	1.6049	1.7110	- 6.20%
Average Exchange Rate	1.0604	1.1017	- 3.75%
Gas Royalties	\$2,420,331	\$2,908,016	- 16.77%
Gas Prices (\$/Mcf)	\$4.87	\$5.41	- 9.98%
<hr/>			
OEG Agreement			
Gas Sales (Bcf)	38.946	40.942	- 4.88%
Gas Prices (Ecents/Kwh)	1.6389	1.7545	- 6.59%
Average Exchange Rate	1.0611	1.0997	- 3.51%
Gas Royalties	\$996,960	\$1,155,990	- 13.76%
Gas Prices (\$/Mcf)	\$4.87	\$5.42	- 10.15%

For the six months ended 3/31/2017, gas sales from western Oldenburg accounted for only 31.90% of all gas sales from the Oldenburg concession. However, royalties on these gas sales provided approximately 79.98%, or \$2,718,250 out of \$3,398,623, of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the first six months of fiscal 2017 decreased 4.99%, or \$24,719, to \$470,166 from \$494,885 for the first six months of fiscal 2016. This decrease in expenses reflects the absence of legal costs resulting from the prior completion of the examination of the pricing method proposed by the operating companies and the incorporation of the resulting details in the amendments to the royalty agreements. The decrease in expenses also reflects the absence of current costs relating to the biennial examination of the royalty statements by the Trust's German accountants because 2017 is an alternate year. Trust interest income received during the first six months of fiscal 2017 decreased to \$1,576 in comparison to \$2,795 received in the first six months of fiscal 2016 due to reduced net income.

Report on Drilling and Geophysical Work  
-----

The Trust's German consultant met with representatives of ExxonMobil Production Gesellschaft ("EMPG") for technical discussions regarding EMPG's future drilling and geophysical work. The following is a summary of these discussions with some additional comments from the Trust's German consultant. EMPG is not obligated to take any of the actions outlined and, if they change their plans with respect to any such actions, they are not obligated to inform the Trust.

The Trust's German consultant advised the Trust that, in these discussions, EMPG stated that the previous suspension of drilling efforts for 2015-2016 would be extended through 2017. Continuing weak energy prices in combination with increased German regulatory requirements have caused EMPG to extend the drilling halt. Other than pushing start dates back by a year, EMPG's drilling program has not changed from details that were included in the Trust's 2016 Annual Report.

Despite the lifting of the moratorium on hydraulic fracturing ("fracking") effective as of February 11, 2017, EMPG has stated that fracking will not be used in the near future. Since any further work in the Carboniferous zone has been postponed until 2020 or later, there is no immediate need to use fracking. EMPG's decision may have resulted from a combination of its need to address increased regulatory requirements relating to the use of fracking as well as the hope that a delay in the drilling of Carboniferous wells will permit a rise in gas prices to help defray the higher costs associated with drilling in the Carboniferous zone. In accordance with the fracking provisions, it is the rock type not the depth that determines whether fracking is permitted. Fracking is allowed in sandstone at any depth but not in clay, coal beds or shale.

The work-over scheduled for 2018 will be on Visbek Z-16a, a western Zechstein well. Visbek Z-16a suffered a severe casing collapse six months after it began production and was shut down in October 2013. This work-over will involve an attempt to repair the original casing.

The following is a list of wells planned for the years 2018-2020. EMPG has not assigned any specific start dates to these wells. Hemmelte NW T-1 is planned to develop a new area of the sweet gas Bunter zone in western Oldenburg. The Bunter zone is generally characterized by good porosity and permeability. The next three new wells are Brettorf Z-2b, Goldenstedt Z-12a M1 and Goldenstedt Z-25a M1. All these wells are multilateral wells, are located in eastern Oldenburg and are sour gas infill wells. Multilateral wells take advantage of a single master well to draw from multiple sidetracks. The primary advantage is the cost saving in using a single borehole for more than one sidetrack. Doetlingen Z-3A is intended to develop

the Zechstein zone in eastern Oldenburg. Alhorn Z-3, a western well, is intended to reopen the old Alhorn field, which had been plugged and abandoned in 1997.

Jeddeloh Z-1 is the first well being drilled in the Oldenburg concession with Vermilion as the lead developer. The well is an exploration well located in the western portion of the area designated as Oldenburg-Land, the southernmost area of the three areas within the concession subject to Vermilion's Farm-In Agreement. Vermilion's well is intended to develop the Rotliegend (Red Sandstone) formation, a previously undeveloped productive zone within the concession. Oldenburg-Land is a relatively undeveloped area of the concession compared to the southern area of Muensterland-Cloppenburg-Vechta where the majority of the wells operated by EMPG are located. In addition to Vermilion's Jeddeloh well in Oldenburg-Land, Vermilion is required under the terms of its Farm-In Agreement to participate in the drilling of three additional wells in areas subject to the Trust's royalty interest. These three wells will be located in the two northern areas of the Oldenburg concession (Jeverland and Jade-Weser) and in a separate lease, Grosses Meer.

No firm dates have been announced for any of the wells described above. Information on wells that are not named or are in preliminary planning stages is not divulged by EMPG.

-----

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. 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, 2016.

-20-

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.

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

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 the Trust's 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.  
-----

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 April 30, 2017 based on the criteria for effective internal control over financial reporting described in the standards promulgated by the Public Company Accounting Oversight Board and the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Managing Director concluded that the Trust's disclosure controls and procedures were effective as of April 30, 2017.

There have been no changes in the Trust's internal control over financial reporting identified in connection with the evaluation described above that occurred during the second quarter of fiscal 2017 that have materially affected or are reasonably likely to materially affect the Trust's internal control over financial reporting.

-21-

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

PART II -- OTHER INFORMATION  
-----

Item 1. Legal Proceedings.  
-----

The Trust is not a party to any pending legal proceedings.

Item 4. Mine Safety Disclosure.  
-----

Not applicable.

Item 6. Exhibits.  
-----

Exhibit 31. Certification of Chief Executive Officer and  
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  
-----

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  
-----

(Registrant)

/s/ John R. Van Kirk  
-----

John R. Van Kirk  
Managing Director

Dated: May 30, 2017