

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

NORTH EUROPEAN OIL ROYALTY TRUST

Form 10-Q

May 26, 2010

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

FORM 10-Q

(Mark One)

☒ [X] Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended April 30, 2010 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

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(State of organization)

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

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

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(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 ☐

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

Class	Outstanding at April 30, 2010
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)

April 30, 2010 AND OCTOBER 31, 2009

	2010	2009
	(Unaudited)	(Audited)
Current assets - - Cash and cash equivalents	\$4,733,470	\$3,586,197
Producing gas and oil royalty rights, net of amortization (Notes 1 and 2)	1	1
Total Assets	\$4,733,471	\$3,586,198
	=====	=====
Current liabilities - - Distributions to be paid to unit owners, paid May 2010 and November 2009	\$4,687,201	\$3,492,424
Trust corpus (Notes 1 and 2)	1	1
Undistributed earnings	46,269	93,773
Total Liabilities and Trust Corpus	\$4,733,471	\$3,586,198
	=====	=====

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 APRIL 30, 2010 AND 2009

	2010	2009
	-----	-----
	(Unaudited)	(Unaudited)
German gas, sulfur and oil royalties received	\$4,926,049	\$9,424,837
	-----	-----
Interest income	2,277	197
	-----	-----
Trust expenses	(309,625)	(302,134)
	-----	-----
Net income	\$4,618,701	\$9,122,900
	=====	=====
Net income per unit	\$0.50	\$0.99
	=====	=====
Distributions per unit to be paid to unit owners	\$0.51	\$0.99
	=====	=====

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 SIX MONTHS ENDED APRIL 30, 2010 AND 2009

	2010	2009
	-----	-----
	(Unaudited)	(Unaudited)
German gas, sulfur and oil royalties received	\$ 9,820,458	\$19,605,816
Interest income	2,458	9,648
Trust expenses	(587,924)	(646,095)
Net income	\$ 9,234,992	\$18,969,369
	=====	=====
Net income per unit	\$1.00	\$2.06
	=====	=====
Distributions per unit to be paid to unit owners	\$1.01	\$2.05
	=====	=====

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

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STATEMENTS OF UNDISTRIBUTED EARNINGS (NOTE 1)  
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FOR THE SIX MONTHS ENDED APRIL 30, 2010 AND 2009  
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	2010	2009
	-----	-----
	(Unaudited)	(Unaudited)
Balance, beginning of period	\$ 93,773	\$ 58,221
Net income	9,234,992	18,969,369
	-----	-----
	9,328,765	19,027,590
Less:		
Current year distributions paid or to be paid to unit owners	9,282,496	18,840,709
	-----	-----
Balance, end of period	\$ 46,269	\$ 186,881
	=====	=====

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

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

FOR THE SIX MONTHS ENDED APRIL 30, 2010 AND 2009

	2010	2009
	(Unaudited)	(Unaudited)
Sources of cash and cash equivalents:		
German gas, sulfur and oil royalties	\$ 9,820,458	\$19,605,816
Interest income	2,458	9,648
	9,822,916	19,615,464
Uses of cash and cash equivalents:		
Payment of Trust expenses	587,924	646,095
Distributions paid	8,087,719	19,208,333
	8,675,643	19,854,428
Net increase (decrease) in cash and cash equivalents during the period	1,147,273	(238,964)
Cash and cash equivalents, beginning of period	3,586,197	9,524,529
Cash and cash equivalents, end of period	\$ 4,733,470	\$ 9,285,565

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

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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") present financial statement balances and financial results 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"). 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.

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, 2009. The Statements of Assets, Liabilities and Trust Corpus included herein contain information from the Trust's 2009 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 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.



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Cash and cash equivalents -  
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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.

Net income per unit -  
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Net income per unit is based upon the number of units outstanding at the end of the period. As of both April 30, 2010 and 2009, there were 9,190,590 units of beneficial interest outstanding.

New accounting pronouncements -  
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In February 2010, the Financial Accounting Standards Board ("FASB") issued an update to authoritative guidance relating to subsequent events, which was effective upon the issuance of the update. The Trust adopted this authoritative guidance on February 28, 2010. The update to the authoritative guidance relating to subsequent events removes the requirement for Securities and Exchange Commission filers to disclose the date through which subsequent events have been evaluated in both issued and revised financial statements. The adoption of this update to the authoritative guidance relating to subsequent events did not impact the Trust's financial position or operating results.

(2) Formation of the Trust:  
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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:  
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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 \$5,900 and \$6,021 in the second quarter of fiscal 2010 and 2009, respectively. For such office space and office services, the Trust reimbursed the Managing Director \$12,072 and \$11,800 in the first six months of fiscal 2010 and 2009, respectively.

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 2010 and 2009, the Trust paid Cahill Gordon & Reindel LLP \$50,768 and \$34,703 for legal services, respectively. For the first six months of fiscal 2010 and 2009, the Trust paid Cahill Gordon & Reindel LLP \$65,373 and \$67,732 for legal services, respectively.

As of November 1, 2006, John H. Van Kirk, the former Managing Trustee of the Trust and the father of John R. Van Kirk, was named to the position of Founding Trustee Emeritus. For his service in such capacity, he earned \$0 and \$2,500 in the first six months of fiscal 2010 and 2009, respectively. John H. Van Kirk, who served as President of North European Oil Royalty Corporation and North European Oil Company from 1954-1975 and as Managing Trustee of the Trust from 1975-2006, passed away on February 25, 2009.

(4) Employee Benefit Plan:

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The Trust established a savings incentive match plan for employees (SIMPLE IRA) that is available to all employees of the Trust, including 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 2010 calendar year.

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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. 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 any such involvement 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"). 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 Exxon Mobil 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.

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 provides approximately 98% of the total royalties. The amount of royalties paid to the Trust is based on four primary factors: the amount of gas sold, the price of that gas, the area from which the gas is sold and the exchange rate. 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.

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. On the other hand, sour gas must be processed at either the Grossenkneten or 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.

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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 99% 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. The Trust had received no sulfur royalties under this agreement for over ten years until the second quarter of fiscal 2008. From that point forward, the average selling price for sulfur again exceeded the indexed base price and the payment of sulfur royalties under the Mobil Agreement resumed. In the first quarter of fiscal 2009, the Trust received \$244,874. However, beginning with the second quarter of fiscal 2009 and continuing through the end of the second quarter of fiscal 2010, the average selling price for sulfur was below the indexed base price and no royalties based on sulfur sales under the Mobil Agreement have been received.

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. NV Nederlandse Gasunie (the state owned Dutch gas distribution company) has completed the purchase of BEB's North German gas distribution and transmission network. As part of its normal biennial examination of the operating companies, the Trust's German accountants have recently completed their examination of the royalty payments for 2007-08. While the pipeline sale occurred in the latter half of 2008, the 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. The Trust will continue to monitor the situation.

The Trust also receives small amounts of royalties from a private lease area, Grosses Meer, outside the Oldenburg concession. The German authorities requested that the operating companies conduct a reservoir analysis to determine whether the royalties are being properly allocated based on the locations of the gas reserves. During the period in which the operating companies conducted this analysis, the payment of royalties to the Trust was suspended. This analysis has been completed and an allocation of gas sales for Grosses Meer was set at 60% for private lease holders and 40% for the state. Once the final paperwork has been completed and royalty payments are brought into balance based on the new allocation, royalties from Grosses Meer should resume. No royalties based on gas sales from Grosses Meer have been paid to the Trust since the first quarter of fiscal 2008.

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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 reviews 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 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.

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 not material to the regular annual income received under the 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. In his position as consultant, he receives reports from the operating companies with respect to current and planned drilling and exploration efforts. However, the unified exploration and production venture, EMPG, which provides the reports to the Trust's consultant, 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 prospects. 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

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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.

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 the funds on hand after provision is made for Trust expenses then anticipated.

### Results: Second Quarter Fiscal 2010 Versus Second Quarter Fiscal 2009

For the second quarter of fiscal 2010, the Trust's net income was \$4,618,701, a decrease of 49.37% from the net income of \$9,122,900 for the second quarter of fiscal 2009. Gross royalties received for the second quarter of fiscal 2010 were \$4,926,049, a decrease of 47.73% as compared to \$9,424,837 for the second quarter of fiscal 2009. A distribution of 51 cents per unit was paid on May 26, 2010 to owners of record as of May 14, 2010. The distribution for the second fiscal quarter is primarily comprised of royalties derived from sales of gas.

In the second fiscal quarter of 2009, as in prior years, the Trust received adjustments from the operating companies based on their final calculations of royalties payable during the previous calendar year. Beginning in 2010, however, such prior year adjustments will be delayed until September per a negotiated settlement between the Trust and the operating companies. Accordingly, no adjustment was received in the second quarter of fiscal 2010. During the second quarter of fiscal 2009, the Trust received the equivalent of \$0.1090 per unit in prior year adjustments and a one-time adjustment of \$0.1013 per unit which resulted from the examination of the operating companies for the period 2005-2006 and extending into 2007.

The amount of royalties paid to the Trust is based on four primary factors: the amount of gas sold, the price of that gas, the area from which the gas is sold and the exchange rate. Gas sales are measured in billion cubic feet ("Bcf"). Gas prices are reported in Euro cents per Kilowatt hour ("Ecents/Kwh") and dollars per thousand cubic feet ("\$/Mcf"). Significant declines in both gas prices and gas sales, offset slightly by an increase in the average exchange rate, resulted in the significant declines in royalty revenue and net income for the quarter just ended under both the Mobil and the OEG Agreements.

MOBIL AGREEMENT	2nd Fiscal Qtr. Ended 4/30/2010	2nd Fiscal Qtr. Ended 4/30/2009	Percentage Change
Gas Sales (Bcf)	11.331	12.839	-11.75%
Gas Prices (Ecents/Kwh)	1.9035	2.7105	-29.77%
Gas Prices (\$/Mcf)	\$ 7.44	\$10.24	-27.34%
Average Euro Value	\$1.3586	\$1.3117	+ 3.58%
OEG AGREEMENT			
Gas Sales (Bcf)	30.083	32.416	- 7.20%
Gas Prices (Ecents/Kwh)	2.0857	3.1818	-34.45%
Gas Prices (\$/Mcf)	\$ 7.83	\$11.60	-32.50%
Average Euro Value	\$1.3403	\$1.2987	+ 3.20%

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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 37.67% of all gas sales. However, royalties on these gas sales provided approximately 81.49% or \$3,965,674 out of a total of \$4,866,535 in Oldenburg royalties attributable to gas.

Interest income was minimal due to the low interest rates applicable during the period. Per the terms of the Trust Agreement, funds temporarily held by the Trust are invested in certificates of deposit or U.S. Treasury Bills. Trust expenses for the second quarter of fiscal 2010 increased 2.48% or \$7,491 to \$309,625 in comparison to the prior year's equivalent period. This increase in expenses is primarily due to the legal issues raised as a result of the examination of the German operating companies' royalty payments. The Trust's German accountants conduct this examination every other year.

The current Statement of Assets, Liabilities and Trust Corpus of the Trust at April 30, 2010, compared to that at fiscal year-end (October 31, 2009), shows an increase in assets due to the higher royalty receipts during the second quarter of fiscal 2010.

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Results: First Six Months of Fiscal 2010 Versus First Six Months of

Fiscal 2009

For the six month period, the Trust's net income was \$9,234,992, a decrease of 51.32% from the net income of \$18,969,369 for last year's equivalent period. Gross royalties received for the first six months of fiscal 2010 were \$9,820,458, a decrease of 49.91% as compared to \$19,605,816 for the first six months of fiscal 2009. These royalties were derived primarily from sale of gas from the Trust's overriding royalty areas in Germany. For the six month period ended April 30, 2010, total distributions were equal to \$1.01 per unit compared to total distributions of \$2.05 for the first six months of fiscal 2009.

Significant declines in both gas prices and gas sales, offset slightly by an increase in the average exchange rate, resulted in the significant declines in royalty revenue and net income for the six months just ended under both the Mobil and the OEG Agreements.

MOBIL AGREEMENT	Six Months Ended 4/30/2010	Six Months Ended 4/30/2009	Percentage Change
Gas Sales (Bcf)	23.192	26.537	-12.61%
Gas Prices (Ecents/Kwh)	1.7734	2.9560	-40.01%
Gas Prices (\$/Mcf)	\$ 7.15	\$11.31	-36.78%
Average Euro Value	\$1.4018	\$1.3277	+ 5.58%
OEG AGREEMENT			
Gas Sales (Bcf)	60.700	66.767	- 9.09%
Gas Prices (Ecents/Kwh)	1.9996	3.3152	-39.68%
Gas Prices (\$/Mcf)	\$ 7.78	\$12.28	-36.64%
Average Euro Value	\$1.3886	\$1.3199	+ 5.20%

For the six months just ended, gas sales from western Oldenburg accounted for only 38.21% of all gas sales. However, royalties on these gas sales provided approximately 81.29% or \$7,864,540 out of a total of \$9,674,646 in Oldenburg royalties attributable to gas.

Interest income was lower reflecting the continuing low interest rates applicable during the period and the reduced sums available for investment. Trust expenses for the six month period decreased 9.00% or \$58,171 to \$587,924 in comparison to the prior year's equivalent period. This decrease in expenses is primarily related to reduced Trustees' fees calculated as specified under provisions in the Trust Agreement.

### Report on Drilling and Geophysical Work

The Trust's German consultant, Alfred Stachel, met with representatives of the operating companies recently to inquire about drilling begun or completed in 2009 and planned and proposed drilling and geophysical work for 2010 and beyond, as well as other general matters. The following is a summary of Mr. Stachel's account of the operating companies' responses to his inquiries. The Trust is not able to confirm the accuracy of any of these



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findings or responses. In addition, the operating companies are 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 operating companies have indicated that they will be conducting scheduled maintenance work at the Grossenkneten desulfurization plant during the period August 12-30, 2010. This will reduce sour gas processing during the summer months but for a shorter period than the traditional six week period. No explanation for the shorter period was provided.

An important part of the exploration process involves the interpretation of the geological information obtained through seismic studies and prior drilling. The interpretation of this information hopefully yields not only the locations of additional reserves for future development but detailed information for drilling purposes. With the decline in gas production experienced over the last several years, the operating companies have instituted an ongoing evaluation of the production zones within the Oldenburg concession. For the first time and as part of this overall evaluation, the Bunter ("sweet" gas) zone will be evaluated and individual hydraulic fracturing ("frac") treatments will be planned for existing wells. The results of this overall evaluation will be represented by a combination of exploratory wells, development wells (both extension and production wells) and replacement wells the operating companies are planning for this year and beyond. Extension wells represent an attempt to extend the boundaries of an existing field. Production wells are an attempt to exploit areas within a field that have not been tapped by existing wells. Additionally, the operating companies will be re-drilling two existing wells that have suffered casing collapses in order to resume production.

The following is a description of wells begun, completed or planned for the 2009-2010 period. Goldenstedt Z-23, a Carboniferous well, had a drilling period from July 2009 to February 2010. Five individual frac treatments are planned for July 2010 with the well expected to enter production in the fall of 2010. Goldenstedt Z-10a, a Carboniferous well, completed drilling in August 2009. Four individual frac treatments were completed during January and February 2010, after which the well entered production. Three sour gas wells, Quaadmoor Z-5, Sage Z-5 and Goldenstedt Z-16a, were completed in 2009 and subsequently entered production. Two sour gas work-over wells, Hengstlage-N Z-8 and Hengstlage-N Z-5a, were initially scheduled for re-drilling in 2009. While one well encountered problems, both have been completed and have entered production in 2010. The final well, Cappeln Z-3a, is another Carboniferous well but it is not scheduled to begin drilling until May 2010 with four or five individual frac treatments to occur subsequently.

While the operating companies have provided some limited information on other drilling projects beyond 2010, these drilling projects are dependent on the results of the seismic analysis and review currently being conducted.

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This report on Form 10-Q contains forward looking statements concerning business, financial performance and financial condition of the Trust. Many of these statements are based on information provided to the Trust by the operating companies or by consultants using public information

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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 uncertainties concerning levels of gas production and gas prices, general economic conditions and currency exchange rates and the risks described in Item 1A, "Risk Factors," in the Trust's Annual Report on Form 10-K for the fiscal year ended October 31, 2009. Actual results and events may vary significantly from those discussed in the forward-looking statements.

### 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 April 30, 2010. Based on that evaluation, the Managing Director concluded that the Trust's disclosure controls and procedures were effective as of April 30, 2010.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that occurred during the second quarter of fiscal 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II -- OTHER INFORMATION

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 26, 2010