MESABI TRUST
Form 10-Q
September 08, 2011

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 July 31, 2011

or

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

For the transition period from to

Commission File Number: 1-4488

MESABI TRUST

(Exact name of registrant as specified in its charter)

New York	**13-6022277**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Deutsche Bank Trust Company Americas

Trust & Securities Services GDS

60 Wall Street

27th Floor

New York, New York	**10005**
(Address of principal executive offices)	(Zip code)

(904) 271-2520

(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 o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No o

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

As of September 6, 2011, there were 13,120,010 Units of Beneficial Interest in Mesabi Trust outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements. (Note 1)

Mesabi Trust

Condensed Statements of Income

Three and Six Months Ended July 31, 2011 and 2010

	Three Months Ended July 31, 2011 (unaudited)	Three Months Ended July 31, 2010 (unaudited)	Six Months Ended July 31, 2011 (unaudited)	Six Months Ended July 31, 2010 (unaudited)
A. Condensed Statements of Income				
Revenues				
Royalty income	$ 10,332,035	$ 11,228,415	$ 13,608,623	$ 16,216,146
Interest income	1,231	5,565	2,690	10,661
	10,333,266	11,233,980	13,611,313	16,226,807
Expenses	200,981	224,686	415,768	432,548
Net income	$ 10,132,285	$ 11,009,294	$ 13,195,545	$ 15,794,259
Number of units outstanding	13,120,010	13,120,010	13,120,010	13,120,010
Net income per unit (Note 2)	$ 0.7723	$ 0.8391	$ 1.0058	$ 1.2038
Distributions declared per unit (Note 3)	$ 0.6000	$ 0.8000	$ 0.6500	$ 0.9250

See Notes to Condensed Financial Statements.

Mesabi Trust

Condensed Balance Sheets

July 31, 2011 and January 31, 2011

	July 31, 2011 (unaudited)	January 31, 2011
B. Condensed Balance Sheets		
Assets		
Cash and cash equivalents	$ 7,869,297	$ 8,693,691
U.S. Government securities, at amortized cost (which approximates market)	336,098	668,889
Accrued income receivable	6,025,023	232,786
Prepaid expenses	143,883	50,207
	14,374,301	9,645,573
U.S. Government securities, at amortized cost (which approximates market)	217,889	
Fixed property, including intangibles, at nominal values		
Amended Assignment of Peters Lease	1	1
Assignment of Cloquet Lease	1	1
Certificate of beneficial interest for 13,120,010 units of land trust	1	1
	3	3
	$ 14,592,193	$ 9,645,576
Liabilities, Unallocated Reserve and Trust Corpus		
Liabilities		
Distribution payable	$ 7,872,006	$ 8,528,006
Accrued expenses	73,844	129,765
Deferred royalty revenue (Note 4)	991,000	
	8,936,850	8,657,771
Unallocated Reserve (Note 5)	5,655,340	987,802
Trust Corpus	3	3
	$ 14,592,193	$ 9,645,576

See Notes to Condensed Financial Statements.

Mesabi Trust

Condensed Statements of Cash Flows

Six Months Ended July 31, 2011 and 2010

	Six Months Ended July 31, 2011 (unaudited)	Six Months Ended July 31, 2010 (unaudited)
C. Condensed Statements of Cash Flows		
Cash flows from operating activities		
Royalties received	$ 8,807,077	$ 10,361,187
Interest received	2,999	11,175
Expenses paid	(565,365)	(428,048)
Net cash provided by operating activities	8,244,711	9,944,314
Cash flows from investing activities		
Maturities of U.S. Government Securities	332,000	1,540,000
Purchases of U.S. Government Securities	(217,098)	(998,861)
Net cash provided by investing activities	114,902	541,139
Cash flows used for financing activities		
Distributions to Unitholders	(9,184,007)	(8,856,007)
Net change in cash and cash equivalents	(824,394)	1,629,446
Cash and cash equivalents, beginning of year	8,693,691	8,444,697
Cash and cash equivalents, end of period	$ 7,869,297	$ 10,074,143
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 13,195,545	$ 15,794,259
Increase in accrued income receivable	(5,792,237)	(3,084,445)
Decrease (increase) in prepaid expenses	(93,676)	14,389
Decrease in accrued expenses	(55,921)	(9,889)
(Decrease) Increase in deferred royalty revenue	991,000	(2,770,000)
Net cash provided by operating activities	$ 8,244,711	$ 9,944,314
Non Cash Financing Activity		
Distributions declared	$ 7,872,006	$ 10,496,008

See Notes to Condensed Financial Statements.

Mesabi Trust

Notes to Condensed Financial Statements

July 31, 2011 (unaudited)

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2011) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Trustees, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the results of operations for the three months and six months ended July 31, 2011 and 2010, (b) the financial position at July 31, 2011 and (c) the cash flows for the six months ended July 31, 2011 and 2010, have been made. For further information, refer to the financial statements and footnotes included in Mesabi Trust s Annual Report on Form 10-K for the year ended January 31, 2011.

Note 2. Net income per unit includes accrued income receivable. For the three months ended July 31, 2011 the Trust recorded $6,025,023 of accrued income receivable as reflected on the Condensed Balance Sheet as of July 31, 2011 (unaudited). Accrued income receivable includes accruals for anticipated positive pricing adjustments and shipments during the month of July. Accrued income receivable is accounted for and reported for the Trust s second fiscal quarter even though such accrued income receivable is not available for distribution to Unitholders until it is actually received by the Trust. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company (Northshore) as to the amount of royalty that is expected to be paid to the Trust based on shipments through the end of each calendar quarter. The Trust s financial statements are prepared on an accrual basis and present the Trust s results of operations based on each fiscal quarter which ends one month after the close of each calendar quarter. Because distributions are declared based on the royalty payment that is payable as of the end of each calendar quarter and the Trust s Net Income is calculated as of the end of each fiscal quarter, the distributions declared by the Trust are not equivalent to the Trust s Net Income during the periods reported in this quarterly report on Form 10-Q.

Note 4. Mesabi Trust receives royalties based on (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, or (ii) if greater, a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons. As of July 31, 2011, the percentage of iron ore shipped from Mesabi Trust lands was less than 90% of the total tons shipped from Silver Bay for the year to date. The deferred royalty revenue of $991,000 represents royalty payments received from Northshore to fulfill the 90% minimum quarterly and annual threshold required under the royalty agreement. If future shipments of iron ore products from Mesabi Trust lands during the remainder of the current calendar year exceed the thresholds described above, royalty payments made to Mesabi Trust based on the stated 90% minimum quarterly and annual threshold, to the extent such credited shipments exceed actual shipments, may be used by Northshore to offset royalties to be received by the Trust in the fourth quarter of the current calendar year.

Note 5. The Trustees have determined that the unallocated cash and U.S. Government securities portion of the Unallocated Reserve should be maintained at a prudent level, usually within the range of $500,000 to $1,000,000, to meet present or future liabilities of the Trust. Accordingly, although the actual amount of the Unallocated Reserve will fluctuate from time to time, and may increase or decrease from its current level, it is currently intended that future distributions will be highly dependent upon royalty payments received quarterly and the level of Trust expenses that the Trustees anticipate the Trust will incur in subsequent quarters.

As of July 31, 2011, the Unallocated Reserve consisted of $621,317 in unallocated cash and U.S. Government securities and $6,025,023 of accrued income receivable primarily representing royalties not yet received by the Trust but anticipated to be received in future periods based primarily on shipments during July 2011, less the estimated deferred royalty revenue of $991,000. See Note 4 for further information regarding the deferred royalty revenue. Pursuant to the Agreement of Trust, the Trust makes decisions on cash distributions to Unitholders based on the royalty payments actually received from Northshore after considering any historical and potential future pricing adjustments, rather than as royalty income is recorded in accordance with the Trust s revenue recognition policy.

As of July 31, 2011 and January 31, 2011, the Trust s Unallocated Reserve was comprised of the following components:

		July 31, 2011 (unaudited)		**January 31, 2011**
Cash and U.S. Government securities	$	621,317	$	755,016
Accrued income receivable		6,025,023		232,786
Deferred royalty revenue		(991,000)		
Unallocated Reserve	$	5,655,340	$	987,802

A reconciliation of the Trust s Unallocated Reserve from January 31, 2011 to July 31, 2011 is as follows:

Unallocated Reserve, January 31, 2011	$	987,802
Net income		13,195,545
Distributions declared		(8,528,007)
Unallocated Reserve, July 31, 2011	$	5,655,340

Item 2. Trustees Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Certain information included in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. All such forward-looking statements, including those statements estimating iron ore pellet production, shipments or pricing, are based on information from the lessee/operator (and its parent corporation) of the mine located on the lands owned and held in trust for the benefit of the holders of units of beneficial interest of Mesabi Trust. These statements may be identified by the use of forward-looking words, such as may, will, could, project, predict, intend, believe, anticipate, expect, estimate, continue, potential, plan, should, assume, forecast and other similar words. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results and future developments could differ materially from the results or developments expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, volatility of iron ore and steel prices, market supply and demand, competition, environmental hazards, health and safety conditions, regulation or government action, litigation and uncertainties about estimates of reserves. Further, substantial portions of royalties earned by Mesabi Trust are based on estimated prices that are subject to interim and final adjustments, which can be positive or negative, and are dependent in part on multiple price and inflation index factors under Cliffs customer agreements to which Mesabi Trust is not a party and that are not known until after the end of a contract year. It is possible that future negative price adjustments could partially or even completely offset royalties or royalty income that would otherwise be payable to the Trust in any particular quarter, or at year-end, thereby potentially reducing cash available for distribution to the Trust s Unitholders in future quarters. For a discussion of the factors, including without limitation, those that could materially and adversely affect Mesabi Trust s actual results and performance, see Risk Factors in Part I Item 1A of Mesabi Trust s Annual Report on Form 10-K for the year ended January 31, 2011, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q. Mesabi Trust undertakes no obligation, other than that imposed by law, to make any revisions to the forward-looking statements contained in this filing or to update them to reflect circumstances occurring after the date of this filing.

This discussion should be read in conjunction with the condensed financial statements and notes presented in this Form 10-Q and the financial statements and notes in the last filed Annual Report on Form 10-K filed for the period ending January 31, 2011 for a full understanding of Mesabi Trust s financial position and results of operations for the six month period ended July 31, 2011.

Background

Mesabi Trust (Mesabi Trust or the Trust), formed pursuant to an Agreement of Trust dated July 18, 1961 (the Agreement of Trust), is a trust organized under the laws of the State of New York. Mesabi Trust holds all of the interests formerly owned by Mesabi Iron Company (MIC), including all right, title and interest in the Amendment of Assignment, Assumption and Further Assignment of Peters Lease (the Amended Assignment of Peters Lease), the Amendment of Assignment, Assumption and Further Assignment of Cloquet Lease (the Amended Assignment of Cloquet Lease and together with the Amended Assignment of Peters Lease, the Amended Assignment Agreements), the beneficial interest in the Mesabi Land Trust (as such term is defined below) and all other assets and property identified in the Agreement of Trust. The Amended Assignment of Peters Lease relates to an Indenture made as of April 30, 1915 among East Mesaba Iron Company (East Mesaba), Dunka River Iron Company (Dunka River) and Claude W. Peters (the Peters Lease) and the Amended Assignment of Cloquet Lease relates to an Indenture made May 1, 1916 between Cloquet Lumber Company and Claude W. Peters (the Cloquet Lease).

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition applies even to business activities the Trustees may deem necessary or proper for the preservation and protection of the Trust Estate. Accordingly, the Trustees activities in connection with the administration of Trust assets are limited to collecting income, paying expenses and liabilities, distributing net income to the holders of Certificates of Beneficial Interest in Mesabi Trust (Unitholders) after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the assets held.

The Trustees do not intend to expand their responsibilities beyond those permitted or required by the Agreement of Trust, the Amendment to the Agreement of Trust dated October 25, 1982 (the Amendment), and those required under applicable law. Mesabi Trust has no employees, but it engages independent consultants to assist the Trustees in, among other things, monitoring the volume and sales prices of iron ore products shipped from Silver Bay, Minnesota, based on information supplied to the

Trustees by Northshore Mining Company (Northshore), the lessee/operator of the Mesabi Trust lands, and its parent company Cliffs Natural Resources Inc. (Cliffs). References to Northshore in this quarterly report, unless the context requires otherwise, are applicable to Cliffs as well.

Leasehold royalty income constitutes the principal source of the Trust s revenue. The income of the Trust is highly dependent upon the activities and operations of Northshore. Royalty rates and the resulting royalty payments received by the Trust are determined in accordance with the terms of the Trust s leases and assignments of leases.

Three types of royalties, as well as royalty bonuses, comprise the Trust s leasehold royalty income:

• Base overriding royalties. Base overriding royalties have historically constituted the majority of the Trust s royalty income. Base overriding royalties are determined by both the volume and selling price of iron ore products shipped. Northshore is obligated to pay the Trust base overriding royalties in varying amounts, based on the volume of iron ore products shipped. Base overriding royalties are calculated as a percentage of the gross proceeds of iron ore products produced at the Trust lands (and to a limited extent other lands) and shipped from Silver Bay, Minnesota. The percentage ranges from 2-1/2% of the gross proceeds for the first one million tons of iron ore products so shipped annually to 6% of the gross proceeds for all iron ore products in excess of 4 million tons so shipped annually. Base overriding royalties are impacted by, among other things, price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.

• Royalty bonuses. The Trust earns royalty bonuses when iron ore products shipped from Silver Bay are sold at prices above a threshold price per ton. The royalty bonus is based on a percentage of the gross proceeds of product shipped from Silver Bay and sold at prices above a threshold price. The threshold price is adjusted (but not below $30.00 per ton) on an annual basis for inflation and deflation (the Adjusted Threshold Price). The Adjusted Threshold Price was $48.81 per ton for calendar year 2010 and is $49.35 per ton for calendar year 2011. The royalty bonus percentage ranges from 1/2 of 1% of the gross proceeds (on all tonnage shipped for sale at prices between the Adjusted Threshold Price and $2.00 above the Adjusted Threshold Price) to 3% of the gross proceeds (on all tonnage shipped for sale at prices $10.00 or more above the Adjusted Threshold Price). Royalty bonuses are subject to price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.

• Fee royalties. Fee royalties have historically constituted a smaller component of the Trust s total royalty income. Fee royalties are payable to the Mesabi Land Trust, a Minnesota land trust, which holds a 20% interest as fee owner in the Amended Assignment of Peters Lease. Mesabi Trust holds the entire beneficial interest in the Mesabi Land Trust for which U.S. Bank N.A. acts as the corporate trustee. Mesabi Trust receives the net income of the Mesabi Land Trust, which is generated from royalties on the amount of crude ore mined after the payment of expenses to U.S. Bank N.A. for its services as corporate trustee. Crude ore is the source of iron oxides used to make iron ore pellets and other products. The fee royalty on crude ore is based on an agreed price per ton, subject to certain indexing.

• Minimum advance royalties. Northshore s obligation to pay base overriding royalties and royalty bonuses with respect to the sale of iron ore products generally accrues upon the shipment of those products from Silver Bay. However, regardless of whether any shipment has occurred, under the terms of the Amended Assignment Agreements, Northshore is obligated to pay to the Trust a minimum advance royalty. Each year, the amount of the minimum advance royalty is adjusted (but not below $500,000 per annum) for inflation and deflation in accordance with the Amended Assignment Agreements. The minimum advance royalty was $813,729 for calendar year 2010 and is $822,783 for calendar year 2011. Until overriding royalties (and royalty bonuses, if any) for a

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particular year equal or exceed the minimum advance royalty for the year, Northshore must make quarterly payments of up to 25% of the minimum advance royalty for the year. Because minimum advance royalties are essentially prepayments of base overriding royalties and royalty bonuses earned each year, any minimum advance royalties paid in a fiscal quarter are recouped by credits against base overriding royalties and royalty bonuses earned in later fiscal quarters during the year.

Under the relevant documents, Northshore may mine and ship iron ore products from lands other than Mesabi Trust lands. Northshore is obligated to make quarterly royalty payments to the Trust in January, April, July and October of each year based on shipments of iron ore products from Silver Bay, Minnesota during each calendar quarter. In the case of base overriding royalties and royalty bonuses, these quarterly royalty payments are to be made whether or not the related proceeds of sale have been received by Northshore by the time such payments become due. Northshore alone determines whether to mine off Trust and/or such other lands, based on its current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions. To encourage the mining of iron ore products from Mesabi Trust lands, Mesabi Trust receives royalties on stated percentages of iron ore shipped from Silver Bay, whether or not the iron ore products that are shipped are actually mined from Mesabi Trust lands. Mesabi Trust receives royalties based on the greater of following two methods of calculating royalty payments (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, and (ii) a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons. If, in any calendar year, Mesabi Trust is credited with shipments in excess of the quantity actually shipped during the first three calendar quarters, Northshore may reduce the royalties to be paid to Mesabi Trust in the fourth calendar quarter of the same calendar year.

Deutsche Bank Trust Company Americas, the Corporate Trustee, performs certain administrative functions for Mesabi Trust. The Trust maintains a website at www.mesabi-trust.com. The Trust makes available (free of charge) its annual, quarterly and current reports (and any amendments thereto) filed with the Securities and Exchange Commission (the   SEC   ) through its website as soon as reasonably practicable after electronically filing or furnishing such material with or to the SEC.

Results of Operations

Comparison of Iron Ore Pellet Production and Shipments for the Three and Six Months Ended July 31, 2011 and July 31, 2010

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the three months ended July 31, 2011 totaled 1,530,182 tons, and shipments over the same period totaled 1,756,594 tons. By comparison, pellet production and shipments for the comparable period in 2010 were 929,634 tons and 1,936,164 tons, respectively. The decrease in shipping is attributable to decreases in orders from Cliffs   customers.

Three Months Ended	Pellets Produced from Mesabi Trust Lands (tons)	Pellets Shipped from Mesabi Trust Lands (tons)
July 31, 2011	1,530,182	1,756,594
July 31, 2010	929,634	1,936,164

As shown in the table below, during the six months ended July 31, 2011, production of iron ore pellets at Northshore from Mesabi Trust lands totaled 2,667,480 tons, and shipments over the same period totaled 2,227,122 tons. By comparison, pellet production and shipments for the comparable period in 2010 were 2,251,040 tons and 3,018,094 tons, respectively.   The decrease in shipments at Northshore for

the six months ended July 31, 2011 is the result of a decrease in orders from Cliffs customers and a decrease in the percentage of pellets shipped from Silver Bay, Minnesota originating from Trust lands, both as compared to the six months ended July 31, 2010. For the six months ended July 31, 2011, approximately 84.5% of shipments from Silver Bay, Minnesota originated from Trust lands, whereas during the same period in 2010 approximately 93.9% of shipments originated from Trust lands

Six Months Ended	Pellets Produced from Mesabi Trust Lands (tons)	Pellets Shipped from Mesabi Trust Lands (tons)
July 31, 2011	2,667,480	2,227,122
July 31, 2010	2,251,040	3,018,094

Comparison of Royalty Income for the Three and Six Months Ended July 31, 2011 and July 31, 2010

Total royalty income for the three months ended July 31, 2011 decreased $896,380 as compared to the three months ended July 31, 2010. The decrease in total royalty income is due to a decrease in the total volume of iron ore pellets shipped during the three months ended July 31, 2011 as compared to the three months ended July 31, 2010. The decrease in the volume of iron ore pellets shipped contributed to a decrease in the base overriding royalty and the bonus royalty payments even though the average sales price per ton for the three months ended July 31, 2011 was slightly higher than the average sales price per ton for the three months ended July 31, 2010.

The table below shows that the base overriding royalties and the bonus royalties for the three months ended July 31, 2011, as compared to the three months ended July 31, 2010, decreased by $813,566, and $205,126, respectively. Fee royalties increased by $122,312 over the same period. The decreases in the base overriding royalties and the bonus royalties are both attributable to the decrease in the volume of tons shipped during the three months ended July 31, 2011 as compared to the three months ended July 31, 2010.

The table below summarizes the components of Mesabi Trust s royalty income for the three months ended July 31, 2011 and July 31, 2010, respectively:

	Three Months Ended July 31,			
		2011		2010
Base overriding royalties	$	5,947,957	$	6,761,523
Bonus royalties		4,158,690		4,363,816
Minimum advance royalty paid (recouped)				
Fee royalties		225,388		103,076
Total royalty income	$	10,332,035	$	11,228,415

The Trust s total royalty income for the six months ended July 31, 2011 decreased $2,607,523 as compared to the six months ended July 31, 2010. The decrease is the result of a decrease in the total volume of iron ore pellets shipped during the six months ended July 31, 2011 as compared to the six months ended July 31, 2010. The decrease in the volume of iron ore pellets shipped both contributed to a decrease in the base overriding royalty and the bonus royalty payments even though the average sales price per ton for the six months ended July 31, 2011 was slightly higher than the average sales price per ton for the six months ended July 31, 2010.

The table below shows that the base overriding royalties, and the bonus royalties decreased $1,622,075, and $1,113,061 respectively, and the fee royalties increased $127,613 for the six months ended July 31, 2011, from the comparable period in 2010. The decreases in the base overriding royalties and the bonus royalties are attributable to the decrease in the volume of tons shipped during the six months ended July 31, 2011 as compared to the six months ended July 31, 2010.

The table below summarizes the components of Mesabi Trust s royalty income for the six months ended July 31, 2011 and July 31, 2010:

	Six Months Ended July 31, 2011	Six Months Ended July 31, 2010
Base overriding royalties	$ 7,415,740	$ 9,037,815
Bonus royalties	5,822,208	6,935,269
Minimum advance royalty paid (recouped)		
Fee royalties	370,675	243,062
Total royalty income	$ 13,608,623	$ 16,216,146

Comparison of Net Income, Expenses and Distributions for the Three and Six Months Ended July 31, 2011 and July 31, 2010

Net income for the three months ended July 31, 2011 was $10,132,285, a decrease of $877,009 compared to the three months ended July 31, 2010. As with the decrease in total royalty income, the decrease in net income for the quarter ended July 31, 2011 was the result of a decrease in the volume of tons shipped. The Trust s expenses decreased $23,705 for the three months ended July 31, 2011, as compared to the three month period ended July 31, 2010, as a result of slightly lower expenses related to the administration of the Trust. The table below summarizes the Trust s income and expenses for the three months ended July 31, 2011 and July 31, 2010, respectively.

	Three Months Ended July 31, 2011	Three Months Ended July 31, 2010
Total Royalty Income	$ 10,332,035	$ 11,228,415
Interest Income	1,231	5,565
Gross Income	10,333,266	11,233,980
Expenses	200,981	224,686
Net income	$ 10,132,285	$ 11,009,294

Net income for the six months ended July 31, 2011 was $13,195,545, a decrease of $2,598,714 as compared to the six months ended July 31, 2010. As with the decrease in total royalty income, the decrease in net income for the six months ended July 31, 2010 was the result of a decrease in the volume of tons shipped. The Trust s expenses of $415,768 for the six months ended July 31, 2011 were consistent with the Trust s expenses for the six month period ended July 31, 2010. The table below summarizes the Trust s income and expenses for the six months ended July 31, 2011 and July 31, 2010, respectively.

	Six Months Ended July 31,			
		2011		2010
Total royalty income	$	13,608,623	$	16,216,146
Interest income		2,690		10,661
Gross income		13,611,313		16,226,807
Expenses		415,768		432,548
Net income	$	13,195,545	$	15,794,259

As presented on the Trust s Condensed Statements of Income on page 2 of this quarterly report, the Trust s net income per unit decreased $0.0668 per unit to $0.7723 per unit for the three months ended July 31, 2011. For the six months ended July 31, 2011, the Trust s net income per unit decreased $0.1980 per unit to $1.0058 per unit, as compared to the prior year period. On July 15, 2011, the Trust declared a distribution of $0.60 per unit payable to Unitholders of record on July 30, 2011. Comparatively, the Trust declared a distribution of $0.80 per unit to Unitholders in July 2010. During the six months ended July 31, 2011 and July 31, 2010, the Trust had declared total distributions per unit of $0.65 and $0.925, respectively.

Distributions are declared after receiving notification from Northshore as to the amount of royalty income that is expected to be paid to the Trust based on shipments through the end of each calendar quarter and such royalty payments may include pricing adjustments with respect to shipments during prior periods. The Trust accounts for and reports accrued income receivable based on shipments during the last month of each of the Trust s fiscal quarters (April, July, October and January) and price adjustments under the Cliffs Pellet Agreements (which can be positive or negative and can result in significant variations in royalties received by Mesabi Trust and cash available for distribution to Unitholders) as reported to the Trust by Northshore. The Trust accounts for these amounts by using estimated prices and reports such amounts even though accrued income receivable is not available for distribution to Unitholders until it is received by the Trust. Accordingly, distributions declared by the Trust are not equivalent to the Trust s Net Income during the periods reported in this quarterly report on Form 10-Q.

Comparison of Unallocated Reserve as of July 31, 2011, July 31, 2010 and January 31, 2011

As set forth in the table below, Unallocated Reserve, which is comprised of accrued income receivable, cash reserve for potential fixed or contingent future liabilities and deferred royalty revenue, increased from $4,786,081 as of July 31, 2010 to $5,655,340 as of July 31, 2011. The increase in Unallocated Reserve as of July 31, 2011, as compared to July 31, 2010, is the result of an increase of approximately $2 million of accrued income receivable from an increase in shipments during July 2011, offset in part by the increase in deferred royalty revenue of $991,000 as of July 31, 2011.

The increase in deferred royalty revenue as of July 31, 2011 is due to the receipt of royalties by the Trust based on shipments of iron ore pellets that were produced from iron ore mined outside of Mesabi Trust lands. The Trust receives royalties based on (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, or (ii) if greater, a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons. As of July 31, 2011, the percentage of iron ore shipped from Mesabi Trust lands was less than 90% of the total tons shipped from Silver Bay for the year to date. The deferred royalty revenue of $991,000 represents royalty payments received from Northshore to fulfill the 90% minimum quarterly and annual threshold required under the royalty agreement. If future shipments of iron ore products from Mesabi Trust lands during the remainder of the current calendar year exceed the thresholds described above, royalty payments made to Mesabi Trust based on

the stated 90% minimum quarterly and annual threshold, to the extent such credited shipments exceed actual shipments, may be used by Northshore to offset royalties to be received in the fourth quarter of the current calendar year.

As set forth in the table below, the Trust s cash reserve for potential fixed or contingent future liabilities decreased from $827,698 as of July 31, 2010 to $621,317 as of July 31, 2011. The decrease in the cash reserve for potential fixed or contingent future liabilities is due to the Trustee s decision to use a portion of the available cash reserve to pay distributions to Unitholders during the six months ended July 31, 2011.

	July 31,			
		2011		2010
Accrued Income Receivable	$	6,025,023	$	3,958,383
Deferred Royalty Revenue		(991,000)		
Cash Reserve		621,317		827,698
Unallocated Reserve	$	5,655,340	$	4,786,081

As set forth in the table below, the Trust s Unallocated Reserve as of July 31, 2011 increased $4,667,538 as compared to the fiscal year ended January 31, 2011. The increase in the Unallocated Reserve is due to an increase in accrued income receivable due to the increased shipments from Northshore during the month of July 2011, offset by a decrease in the cash reserve portion of the Unallocated Reserve and the deferred royalty revenue. At January 31, 2011, the Unallocated Reserve consisted of $755,016 in unallocated cash and U.S. Government securities and $232,786 of accrued income receivable, primarily representing royalties not yet received by the Trust but anticipated to be received in fiscal 2011.

		July 31, 2011		January 31, 2011
Accrued Income Receivable	$	6,025,023	$	232,786
Deferred Royalty Revenue		(991,000)		
Cash Reserve		621,317		755,016
Unallocated Reserve	$	5,655,340	$	987,802

The Trustees have determined that the unallocated cash and U.S. Government securities portion of the Unallocated Reserve should be maintained at a prudent level, usually within the range of $500,000 to $1,000,000, to meet present or future liabilities of the Trust. The actual amount of the Unallocated Reserve will fluctuate from time to time and may increase or decrease from its current level. Future distributions will be highly dependent upon royalty income as it is received, changes in estimated pricing, potential for future price adjustments and the level of Trust expenses. The amount of future royalty income available for distribution will be subject to the volume of iron ore product shipments and the dollar level of sales by Northshore and Cliffs. Shipping activity is greatly reduced during the winter months and economic conditions, particularly those affecting the steel industry, may adversely affect the amount and timing of such future shipments and sales. The Trustees will continue to monitor the economic and other circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain reserve for unexpected loss contingencies at a prudent level, given the unpredictable nature of the iron ore industry, the Trust s dependence on the actions of the lessee/operator, and the fact that the Trust essentially has no other liquid assets.

Recent Developments

Iron Ore Pricing and Contract Adjustments. During the course of its fiscal year, some portion of the royalties paid to Mesabi Trust are based on estimated prices for iron ore products sold under term

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contracts between Cliffs and its subsidiaries and certain of their customers (the Cliffs Pellet Agreements). Mesabi Trust is not a party to any of the Cliffs Pellet Agreements. These prices are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on a variety of price and inflation index factors, including but not limited to the international benchmark pellet price, hot band steel prices and various producer price indexes.

In its Form 10-Q filed July 28, 2011, Cliffs reported that during calendar year 2010, the world s largest iron ore producers began to move away from the annual international benchmark pricing mechanism in favor of a shorter-term, more flexible pricing system. According to Cliffs, in addition to increased volatility of pricing, the change in the international pricing system has impacted some of its customer supply agreements for 2011 some of which have been modified to take into account the new international pricing methodology. Cliffs previously reported in its Form 10-K filed February 17, 2011 that negotiations and arbitrations related to the price adjustment provisions of the Cliffs agreements with its customers could result in changes to the pricing mechanisms used with its various customers, impact sales prices realized in current and future periods and result in retroactive revised pricing.

As reported elsewhere in this Form 10-Q, Northshore makes interim adjustments to the royalty payments on a quarterly basis but, in many cases, these price adjustments cannot be finalized until after the end of a contract year, or, in the case of pricing subject to arbitration or negotiation, much later. This may result in significant and frequent variations in royalties received by Mesabi Trust (and in turn the resulting amount of funds available for distribution to Unitholders by the Trust) from quarter to quarter and on a comparative historical basis, and these variations, which can be positive or negative, cannot be predicted by Mesabi Trust. See the description of pricing adjustments in Cliffs contracts under the heading Risk Factors at page 2 of the Trust s annual report on Form 10-K for the year ended January 31, 2011, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

Production and Shipments at Northshore. In its Form 10-Q filed July 28, 2011, Cliffs reported that Northshore operated all of its four furnaces for the six months ended June 30, 2011, as compared to three furnaces during the same period in 2010. Northshore has not provided the Trustees with an estimate of total expected shipments of iron ore pellets for calendar year 2011. See the description of the uncertainty of market conditions in the iron ore and steel industry under Important Factors Affecting Mesabi Trust below and the information under the heading Risk Factors in Part I Item 1A of the Trust s Annual Report on Form 10-K for the year-ended January 31, 2011, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

Cliffs Settlement Agreement with ArcelorMittal. As previously reported in the Trust s Form 10-Q filed June 3, 2011, Cliffs reported in a news release and in its Form 10-Q filed April 29, 2011, that it reached a negotiated settlement with ArcelorMittal USA Inc., and related parties, with respect to multiple arbitration and litigation proceedings. In its Form 10-Q, Cliffs announced that as part of the settlement, it received a cash payment of approximately $275 million as a pricing true-up for pellet volumes delivered to certain ArcelorMittal steelmaking facilities in North America during 2009 and 2010. Cliffs also announced, as part of the settlement, that it and ArcelorMittal have agreed to replace the previous pricing mechanism with a world market-based pricing mechanism beginning in 2011 and through the remainder of the contract for one of the iron ore supply agreements that Cliffs has with ArcelorMittal.

Based on information received by Mesabi Trust from Cliffs, the Trust believes that during the fiscal years ended January 31, 2011 and January 31, 2010, approximately 2.5% and 10.4%, respectively, of total shipments of iron ore products from Silver Bay attributable to Mesabi Trust, were made to ArcelorMittal s steelmaking facilities involved in the Cliffs-ArcelorMittal negotiated settlement. As of the date of this filing, the Trust has not received any increase in previous royalty payments or any new royalty payments as a result of the Cliffs-ArcelorMittal negotiated settlement. Although the Trust continues to evaluate the effect of the Cliffs-ArcelorMittal negotiated settlement on shipments from Trust lands, the Trustees are unable to predict what impact, if any, the Cliffs-ArcelorMittal negotiated

settlement will have on royalties previously paid to the Trust, future shipments by the Trust, or royalties payable to the Trust based on future shipments from Trust lands.

Silver Bay Power Station. In its Form 10-Q filed July 28, 2011, Cliffs reported on the impact to Northshore s Silver Bay Power Station of the Cross State Air Pollution Rule (CSAP) that was promulgated by the United States Environmental Protection Agency on July 6, 2011. According to Cliffs, Northshore s Silver Bay Power Station is subject to sulfur dioxide and nitrogen oxide emission reductions under this rule and must meet the allocations for such emissions through emission reductions to be achieved by installing additional controls or fuel switching and/or acquiring additional allocations through an allowance trading program authorized by the CSAP but not yet established. In its Form 10-Q filed July 28, 2011, Cliffs reported that it was in the process of analyzing the options available to the Silver Bay Power Station for complying with the CSAP.

The Trustees are unable to predict what impact, if any, the CSAP will have on production and shipments from Northshore or future royalties payable to the Trust.