

MESABI TRUST  
Form 10-Q  
September 05, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended July 31, 2014**

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: 1-4488**

**MESABI TRUST**

(Exact name of registrant as specified in its charter)

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**New York**  
(State or other jurisdiction of  
incorporation or organization)

**13-602277**  
(I.R.S. Employer Identification No.)

**c/o Deutsche Bank Trust Company Americas**  
**Trust & Agency Services**  
**60 Wall Street**  
**16th Floor**  
**New York, New York**  
(Address of principal executive offices)

**10005**  
(Zip code)

**(615) 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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

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

As of September 5, 2014, 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, 2014 and 2013

	Three Months Ended July 31,		Six Months Ended July 31,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
<b>A. Condensed Statements of Income</b>				
<b>Revenues</b>				
Royalty income	\$ 7,858,104	\$ 7,834,425	\$ 8,359,404	\$ 10,362,842
Interest income	2,256	290	4,391	680
Total revenues	7,860,360	7,834,715	8,363,795	10,363,522
<b>Expenses</b>				
	443,819	209,935	810,036	536,353
Net income	\$ 7,416,541	\$ 7,624,780	\$ 7,553,759	\$ 9,827,169
Number of units outstanding	13,120,010	13,120,010	13,120,010	13,120,010
Net income per unit (Note 2)	\$ 0.5653	\$ 0.5812	\$ 0.5757	\$ 0.7490
Distributions declared per unit (Note 3)	\$ 0.3200	\$ 0.4600	\$ 0.3200	\$ 0.5400

See Notes to Condensed Financial Statements.

## Mesabi Trust

## Condensed Balance Sheets

July 31, 2014 and January 31, 2014

	July 31, 2014 (unaudited)	January 31, 2014
<b>B. Condensed Balance Sheets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 4,367,791	\$ 7,719,963
U.S. Government securities, at amortized cost (which approximates market)	82,320	205,055
Accrued income receivable (Note 2)	3,371,401	63,253
Prepaid expenses	143,758	54,950
Current assets	7,965,270	8,043,221
U.S. Government securities, at amortized cost (which approximates market)	633,699	510,573
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
Total Assets	\$ 8,598,972	\$ 8,553,797
<b>Liabilities, Unallocated Reserve and Trust Corpus</b>		
Liabilities		
Distribution payable	\$ 4,198,403	\$ 7,478,406
Accrued expenses	61,116	91,294
Total liabilities	4,259,519	7,569,700
Unallocated Reserve (Note 4)	4,339,450	984,094
Trust Corpus	3	3
Total Liabilities, unallocated reserve and trust corpus	\$ 8,598,972	\$ 8,553,797

See Notes to Condensed Financial Statements.

## Mesabi Trust

## Condensed Statements of Cash Flows

Six Months Ended July 31, 2014 and 2013

	Six Months Ended July 31,	
	2014 (unaudited)	2013 (unaudited)
<b>C. Condensed Statements of Cash Flows</b>		
Cash flows from operating activities		
Royalties received	\$ 5,051,370	\$ 7,343,708
Interest received	4,277	773
Expenses paid	(929,022)	(480,402)
Net cash provided by operating activities	4,126,625	6,864,079
Cash flows from investing activities		
Maturities of U.S. Government Securities	105,000	83,000
Sale of U.S. Government Securities	100,056	100,012
Purchases of U.S. Government Securities	(205,447)	(82,380)
Net cash provided by (used for) investing activities	(391)	100,632
Cash flows used for financing activities		
Distributions to Unitholders	(7,478,406)	(7,478,406)
Net change in cash and cash equivalents	(3,352,172)	(513,695)
Cash and cash equivalents, beginning of year	7,719,963	6,727,461
Cash and cash equivalents, end of period	\$ 4,367,791	\$ 6,213,766
<b>Reconciliation of net income to net cash provided by operating activities</b>		
Net income	\$ 7,553,759	\$ 9,827,169
Increase in accrued income receivable	(3,308,148)	(3,019,041)
Decrease (increase) in prepaid expenses	(88,808)	38,852
Increase (decrease) in accrued expenses	(30,178)	17,099
Net cash provided by operating activities	\$ 4,126,625	\$ 6,864,079
<b>Non Cash Financing Activity</b>		
Distributions payable	\$ 4,198,403	\$ 6,035,205

See Notes to Condensed Financial Statements.

**Mesabi Trust**

**Notes to Condensed Financial Statements**

**July 31, 2014 (Unaudited)**

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2014) 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, 2014 and 2013, (b) the financial position at July 31, 2014 and (c) the cash flows for the six months ended July 31, 2014 and 2013, 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, 2014.

Note 2. Net income per unit includes accrued income receivable. For the three months ended July 31, 2014 the Trust recorded \$3,371,401 of accrued income receivable as reflected on the Condensed Balance Sheet as of July 31, 2014 (unaudited). Accrued income receivable is accounted for and reported for the Trust's second fiscal quarter based on shipments during the month of July, even though such accrued income receivable is not available for distribution to Unitholders until the applicable royalties are actually received by the Trust. Accrued income receivable also includes accruals for anticipated pricing adjustments, which can be positive or negative. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions (if any) each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company (Northshore) as to the amount of royalties expected to be paid to the Trust in cash 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, if any, 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. 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 expected that future distributions will be highly dependent upon royalty payments received quarterly and the level of Trust expenses that the Trustees anticipate occurring in subsequent quarters. Pursuant to the Agreement of Trust, the Trust makes cash distributions to Unitholders based on the royalty payments it receives from Northshore when received, rather than as royalty income is recorded in accordance with the Trust's revenue recognition policy. Refer to Note 3 for further information.

As of July 31, 2014 and January 31, 2014, the unallocated cash and U.S. Government securities portion of the Trust's Unallocated Reserve was comprised of the following components:



Note 4. (continued)

	July 31, 2014 (unaudited)	January 31, 2014
Cash and U.S. Government securities	\$ 5,083,810	\$ 8,435,591
Distribution payable	4,198,403	7,478,406
Unallocated cash and U.S. Government securities	\$ 885,407	\$ 957,185

A reconciliation of the Trust's Unallocated Reserve from January 31, 2014 to July 31, 2014 is as follows:

Unallocated Reserve, January 31, 2014	\$ 984,094
Net income, six months ended July 31, 2014	7,553,759
Distributions declared	(4,198,403)
Unallocated Reserve, July 31, 2014	\$ 4,339,450

## 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 regarding estimation of 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, estimate, continue, 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 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 set forth on pages 3 through 8 of Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2014, 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,



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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 Quarterly Report on Form 10-Q and the financial statements and notes in the last filed Annual Report on Form 10-K filed for the period ended January 31, 2014 for a full understanding of Mesabi Trust's financial position and results of operations for the six month period ended July 31, 2014.

### 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 a trust organized under the laws of the State of Minnesota to administer the Mesabi Fee Lands (as defined below) as the trust corpus in compliance with the laws of the State of Minnesota on July 18, 1961 (the Mesabi Land Trust ) 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, the lessee/operator of the lands leased under the Peters Lease and Cloquet Lease (the Peters Lease Lands and Cloquet Lease Lands, respectively) and the fee interest of certain lands that are particularly described in, and subject to a mining lease under, the Peters Lease (the Mesabi Fee Lands, and together with the Peters Lease Lands and Cloquet Lease Lands, 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:

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- 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

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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 \$51.55 per ton for calendar year 2013 and is \$52.31 per ton for calendar year 2014. 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 \$859,429 for calendar year 2013 and is \$872,156 for calendar year 2014. Until overriding royalties (and royalty bonuses, if any) for a 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, in part, based on the greater of the 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. The royalty percentage paid to the Trust increases as the aggregate tonnage of iron ore products shipped, attributable to the Trust, in any calendar year increases past each of the first four one-million ton volume thresholds. Assuming a consistent sales price per ton throughout a calendar year, shipments of iron ore product attributable to the Trust later in the year generate a higher royalty to the Trust, as total shipments for the year exceed increasing levels of royalty percentages and pass each of the first four one-million ton volume thresholds.

During the course of its fiscal year some portion of royalties expected to be paid to Mesabi Trust is based in part on estimated prices for iron ore products sold under term contracts between Northshore, Cliffs and certain of their customers (the Cliffs Pellet Agreements). The Cliffs Pellet Agreements use estimated prices which are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on multiple price and inflation index factors that are not known until after the end of a contract year. Even though Mesabi Trust is not a party to the Cliffs Pellet Agreements, these adjustments can result in significant variations in royalties received by Mesabi Trust (and in turn the resulting amount 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. In either case, these price adjustments will impact future royalties received by the Trust that become available for distribution to Unitholders.

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](http://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, 2014 and July 31, 2013

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the fiscal quarter ended July 31, 2014 totaled 1,094,000 tons, and shipments over the same period totaled 1,716,609 tons. By comparison, pellet production and shipments for the comparable period in 2013 were 928,983 tons and 1,584,684 tons, respectively. The increase in production and shipments is attributable to anticipated demand and actual orders from Cliffs' customers.

Fiscal Quarter Ended	Pellets Produced from Trust Lands (tons)	Pellets Shipped from Trust Lands (tons)
July 31, 2014	1,094,000	1,716,609
July 31, 2013	928,983	1,584,684

As shown in the table below, during the six months ended July 31, 2014, production of iron ore pellets at Northshore from Mesabi Trust lands totaled 2,272,206 tons, and shipments over the same period totaled 1,794,446 tons. By comparison, pellet production and shipments for the comparable period in 2013 were 1,862,420 tons and 2,153,232 tons, respectively. The increase in production at Northshore, as compared to the prior comparable period, is the result of increases in anticipated demand and actual orders from Cliffs' customers. The decrease in shipments at Northshore for the six months ended July 31, 2014 is the result of unfavorable weather conditions during the first fiscal quarter. For the six

months

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ended July 31, 2014, approximately 97.8% of shipments from Silver Bay, Minnesota originated from Trust lands, whereas during the same period in 2013 approximately 89.8% of shipments originated from Trust lands.

Six Months Ended	Pellets Produced from Trust Lands (tons)	Pellets Shipped from Trust Lands (tons)
July 31, 2014	2,272,206	1,794,446
July 31, 2013	1,862,420	2,153,232

### Comparison of Royalty Income for the Three and Six Months Ended July 31, 2014 and July 31, 2013

Total royalty income for the fiscal quarter ended July 31, 2014 increased by \$23,679 to \$7,858,104, as compared to the fiscal quarter ended July 31, 2013. The increase in total royalty income is due to the higher average sales price per ton of iron ore pellets sold and an increase in pellets shipped from Trust lands for the fiscal quarter ended July 31, 2014. The increase in the average sales price per ton that Cliffs has generated from its customers is contributed to increased demand and inflation.

The table below shows that the base overriding royalties decreased \$397,393 and the bonus royalties increased \$414,112 for the three months ended July 31, 2014, as compared to the three months ended July 31, 2013. Fee royalties increased by \$6,960 over the same period. The decrease in the base overriding royalties is attributable to an overall decline in the year to date volume of shipments and the related use of a lower base overriding royalty percentage during the three months ended July 31, 2014 as discussed under [Base overriding royalties](#) on pages 7 and 8 of this report. The increase in bonus royalties is attributable to an increase in average sales price per ton during the three months ended July 31, 2014, as compared to the three months ended July 31, 2013.

The table below summarizes the components of Mesabi Trust's royalty income for the three months ended July 31, 2014 and July 31, 2013, respectively:

	Three Months Ended July 31,	
	2014	2013
Base overriding royalties	\$ 3,896,139	\$ 4,293,532
Bonus royalties	3,815,169	3,401,057
Minimum advance royalties paid (recouped)		
Fee royalties	146,796	139,836
Total royalty income	\$ 7,858,104	\$ 7,834,425

As reflected in the table below, the Trust's total royalty income for the six months ended July 31, 2014 decreased by \$2,003,438 to \$8,359,404 as compared to the six months ended July 31, 2013. The decrease is the result of a decrease in the total volume of iron ore pellets shipped during the six months ended July 31, 2014, as compared to the six months ended July 31, 2013.

The table below shows that the base overriding royalties, and the bonus royalties decreased by \$1,301,345 and \$714,792 to \$4,053,821 and \$3,998,624, respectively, and the fee royalties increased by \$12,699 to \$306,959 for the six months ended July 31, 2014, from the comparable period in 2013. The decreases in the base overriding royalties and the bonus royalties are attributable to the decrease in the total volume of iron ore pellets shipped, but partially offset by higher sales prices during the six months ended July 31, 2014, as compared to the six months ended July 31, 2013.

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The table below summarizes the components of Mesabi Trust's total royalty income for the six months ended July 31, 2014 and July 31, 2013:

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	Six Months Ended July 31,	
	2014	2013
Base overriding royalties	\$ 4,053,821	\$ 5,355,166
Bonus royalties	3,998,624	4,713,416
Minimum advance royalties paid (recouped)		
Fee royalties	306,959	294,260
Total royalty income	\$ 8,359,404	\$ 10,362,842

**Comparison of Net Income, Expenses and Distributions for the Three and Six Months Ended July 31, 2014 and July 31, 2013**

Net income for the fiscal quarter ended July 31, 2014 was \$7,416,541, a decrease of \$208,239 compared to the fiscal quarter ended July 31, 2013. The decrease in net income for the fiscal quarter ended July 31, 2014 was the result of an increase in expenses mainly relating to the conduct of a special meeting of unitholders held in June 2014 in order to elect a new Trustee of Mesabi Trust to fill a vacancy. In connection with this Trustee election, legal fees for services related to the special unitholder meeting, proxy statement and additional filings with the SEC, as well as professional advisors' fees and expenses related to the election and proxy solicitation process, caused the Trust's expenses to increase by \$233,884 to \$443,819 for the fiscal quarter ended July 31, 2014, as compared to \$209,935 for the fiscal quarter ended July 31, 2013. The table below summarizes the Trust's income and expenses for the fiscal quarter ended July 31, 2014 and July 31, 2013, respectively.

	Three Months Ended July 31,	
	2014	2013
Total royalty income	\$ 7,858,104	\$ 7,834,425
Interest income	2,256	290
Total revenues	7,860,360	7,834,715
Expenses	443,819	209,935
Net income	\$ 7,416,541	\$ 7,624,780

Net income for the six months ended July 31, 2014 was \$7,553,759, a decrease of \$2,273,410 as compared to the six months ended July 31, 2013. The decrease in net income for the six months ended July 31, 2014 was mostly the result of the decrease in the total volume of iron ore pellets shipped during the six months ended July 31, 2014, as compared to the six months ended July 31, 2013. The Trust's expenses of \$810,036 for the six months ended July 31, 2014 increased when compared with the Trust's expenses for the six month period ended July 31, 2013, primarily as a result of the election of a new Trustee. The table below summarizes the Trust's income and expenses for the six months ended July 31, 2014 and July 31, 2013, respectively.

	Six Months Ended July 31,	
	2014	2013
Total royalty income	\$ 8,359,404	\$ 10,362,842
Interest income	4,391	680
Total revenues	8,363,795	10,363,522
Expenses	810,036	536,353
Net income	\$ 7,553,759	\$ 9,827,169



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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 \$0.0159 per unit to \$0.5653 per unit for the fiscal quarter ended July 31, 2014. For the six months ended July 31, 2014, the Trust's net income per unit decreased \$0.1733 per unit to \$0.5757 per unit, as compared to the prior year period. On July 11, 2014, the Trust declared a distribution of \$0.32 per unit payable to Unitholders of record on July 30, 2014. Comparatively, the Trust declared a distribution of \$0.46 per unit to Unitholders in July 2013. During the six months ended July 31, 2014 and July 31, 2013, the Trust had declared total distributions per unit of \$0.32 and \$0.54, 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, 2014, July 31, 2013 and January 31, 2014

As set forth in the table below, Unallocated Reserve, which is comprised of accrued income receivable, unallocated cash and U.S. Government securities for potential fixed or contingent future liabilities, and prepaid expenses and accrued expenses increased from \$3,924,585 as of July 31, 2013 to \$4,339,450 as of July 31, 2014. The increase in Unallocated Reserve as of July 31, 2014, as compared to July 31, 2013, is the result of an increase in all three components of the Trust's Unallocated reserve. The increase in the accrued income receivable portion of the Unallocated Reserve is the result of increased shipments and higher sales prices per ton of iron ore pellets shipped for the month ended July 31, 2014, as compared to the month ended July 31, 2013. The increase in the unallocated cash and U.S. Government securities is a result of the Trustees determination to not make a distribution in April 2014. The determination to not make a distribution resulted from several factors, including that the Trustees were informed the anticipated quarterly royalty payment would be relatively low, the determination to make adequate provision for both ordinary expenses as well as significant anticipated costs in connection with a special meeting of Unitholders held on June 4, 2014, to make provision for anticipated negative price adjustments which will be applied to future royalties, and to increase slightly the Trust's unallocated reserve after considering the need to maintain adequate reserves more generally. Prepaid and accrued expenses (net) increase is related to timing of payments of the Trust's insurance policy.

	2014	July 31,	2013
Accrued Income Receivable	\$	3,371,401	\$ 3,237,094
Unallocated Cash and U.S. Government Securities		885,407	721,799
Prepaid Expenses and (Accrued Expenses) Net		82,642	(34,308)
Unallocated Reserve	\$	4,339,450	\$ 3,924,585

It is possible that future negative price adjustments could offset, or even eliminate, future 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. See the discussion under the heading Risk Factors beginning on page 3 of the Trust's Annual

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Report on Form 10-K for the fiscal year ended January 31, 2014.

The Trust's Unallocated Reserve as of July 31, 2014 increased by \$3,355,357 to \$4,339,450, as compared to the fiscal year ended January 31, 2014. The increase in the Unallocated Reserve is due primarily to the increase in accrued income receivable. As of July 31, 2014, the Trust's Unallocated Reserve consisted of \$885,407 of unallocated cash and U.S. Government securities and \$3,371,401 of accrued income receivable. At January 31, 2014, the Trust's Unallocated Reserve consisted of \$957,185 in unallocated cash and U.S. Government securities and \$63,253 of accrued income receivable.

	July 31, 2014		January 31, 2014	
Accrued Income Receivable	\$	3,371,401	\$	63,253
Unallocated Cash and U.S. Government Securities		885,407		957,185
Prepaid Expenses and (Accrued Expenses) Net		82,642		(36,344)
Unallocated Reserve	\$	4,339,450	\$	984,094

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. 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 income as it is received 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. Shipping activity is greatly reduced during the winter months. 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 circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain adequate reserves 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.

### Important Factors Affecting Mesabi Trust

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition seemingly applies even to business activities the Trustees deem necessary or proper for the preservation and protection of the Trust's assets. 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 Mesabi Trust's Unitholders after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the Trust's assets.

Neither Mesabi Trust nor the Trustees have any control over the operations and activities of Northshore, except within the framework of the Amended Assignment Agreements. Cliffs alone controls (i) historical operating data, including iron ore production volumes, marketing of iron ore products, operating and capital expenditures as they relate to Northshore, environmental and other liabilities and the effects of regulatory changes; (ii) plans for Northshore's future operating and capital expenditures; (iii) geological data relating to ore reserves (iv) projected production of iron ore products; (v) contracts between Cliffs and Northshore with their customers; and (vi) the decision to mine off Mesabi Trust and/or state lands, based on Cliffs' current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions at Northshore, nor do the Trustees provide any input regarding the ore reserve estimated at Northshore as reported by Cliffs. While the Trustees request material information from Cliffs and Northshore for use in periodic reports as part of their evaluation of Mesabi Trust's disclosure controls and procedures, the Trustees do not control this information and they rely on the information in Cliffs' periodic and current filings with the SEC to provide accurate and timely information in Mesabi Trust's reports filed with the SEC.



In accordance with the Agreement of Trust and the Amendment, the Trustees are entitled to, and in fact do, rely upon certain experts in good faith, including (i) the independent consultants with respect to monthly production and shipment reports, which include figures on crude ore production and iron ore pellet shipments, and discussions concerning the condition and accuracy of the scales and plans regarding the development of Mesabi Trust's mining property; and (ii) the accounting firm they have contracted with for non-audit services, including reviews of financial data related to shipping and sales reports provided by Northshore and a review of the schedule of leasehold royalties payable to Mesabi Trust. For a discussion of additional factors, including but not limited to those that could adversely affect Mesabi Trust's actual results and performance, see Risk Factors set forth on pages 3 through 8 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2014, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

### **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 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. Although Northshore makes interim adjustments to the royalty payments on a quarterly basis, these price adjustments cannot be finalized until after the end of a contract year. 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. 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.

### **Effects of Securities Regulation**

The Trust is a publicly-traded trust with Units of Beneficial Interest that are listed on the New York Stock Exchange ( NYSE ) and is therefore subject to extensive regulations under, among others, the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ) and the rules and regulations of the NYSE, each as amended. Issuers failing to comply with such regulations risk serious consequences, including criminal as well as civil and administrative penalties. In most instances, these laws, rules and regulations do not specifically address their applicability to publicly-traded trusts such as Mesabi Trust. In particular, Sarbanes-Oxley and the Dodd-Frank Wall Street Reform and Consumer Protection Act have mandated the adoption by the Securities and Exchange Commission (the SEC ) and, in some instances, the NYSE of certain rules and regulations that are impossible for the Trust to satisfy because of its nature as a pass-through trust that has no officers or employees. Pursuant to NYSE rules currently in effect the Trust is exempt from many of the corporate governance requirements that apply to publicly traded corporations listed on the NYSE. The Trust does not have, nor does the Agreement of Trust provide for, a board of directors, an audit committee, a corporate governance committee or a compensation committee. The Trustees intend to closely monitor the SEC's and the NYSE's rulemaking activity and will attempt to comply with such rules and regulations where applicable.

The Trust's website is located at [www.mesabi-trust.com](http://www.mesabi-trust.com).

### **Critical Accounting Policies and Estimates**

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This Trustees Discussion and Analysis of Financial Condition and Results of Operations is based upon the Trust's financial statements, which have been prepared in accordance with accounting

principles generally accepted in the United States. The preparation of these financial statements requires the Trustees to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are those that have meaningful impact on the reporting of the Trust's financial condition and results, and that require significant judgment and estimates. During the preparation of financial statements, the Trust makes estimates, assumptions and judgments that affect reported amounts. These estimates, assumptions and judgments include those related to revenue recognition and accrued expenses. The Trust bases its estimates on various assumptions and historical experience, which are believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. On a regular basis, the Trust reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States. However, because future events and their effects cannot be determined with certainty, actual results could differ from assumptions and estimates, and such differences could be material.

The Trust did not have any changes in critical accounting policies or in significant accounting estimates during the three months ended July 31, 2014. For a complete description of the Trust's significant accounting policies, please see Note 2 to the financial statements included in the Trust's Annual Report on Form 10-K for the year ended January 31, 2014.

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

Not applicable.

### **Item 4. Controls and Procedures.**

***Evaluation of Disclosure Controls and Procedures.*** The Trustees maintain disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and regulations of the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Trust is accumulated and communicated by Northshore, and consultants to the Trustees as appropriate, to allow timely decisions regarding required disclosure.

As part of their evaluation of the Trust's disclosure controls and procedures, the Trustees rely on quarterly shipment and royalty calculations provided by Northshore. Because Northshore has declined to support this information with a written certification attesting to whether Northshore has established disclosure controls and procedures and internal controls sufficient to enable it to verify that the information furnished to the Trustees is accurate and complete, the Trustees also rely on (a) an annual certification from Northshore and Northshore's parent, Cliffs, certifying as to the accuracy of the royalty calculations, and (b) the related due diligence review performed by the Trust's external accountants. In addition, the Trust's consultants review the schedule of leasehold royalties payable and shipping and sales reports provided by Northshore against production and shipment reports prepared by the Eveleth Fee Office, Inc., an independent consultant to the Trust (Eveleth Fee Office). The Eveleth Fee Office gathers production and shipping information from Northshore and prepares monthly production and shipment reports for the Trustees. Furthermore, as part of its engagement by the Trust, the Eveleth Fee Office also attends Northshore's calibration and testing of its crude ore scales and boat loader scales which are conducted on a periodic basis.

As of the end of the period covered by this report, the Trustees carried out an evaluation of the Trust's disclosure controls and procedures. The Trustees have concluded that such disclosure controls and procedures are effective.



***Changes in Internal Control Over Financial Reporting.*** To the knowledge of the Trustees, there has been no change in the Trust's internal control over financial reporting that occurred during the Trust's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting. The Trustees note for purposes of clarification that they have no authority over, and make no statement concerning, the internal control over financial reporting of Northshore or Cliffs.



**PART II - OTHER INFORMATION**

**Item 1A. Risk Factors**

There have been no material changes in the Trust's risk factors as described in Risk Factors set forth on pages 3 through 8 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2014.

**Item 5. Other Information**

Mine Safety and Health Administration Safety Data. Pursuant to §1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Cliffs started reporting information related to certain mine safety results at Northshore. This information is available in Part II, Item 4 of Cliffs Form 10-Q filed July 24, 2014.

**Item 6. Exhibits.**

- 31 Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Corporate Trustee of Mesabi Trust pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Report of Baker Tilly Virchow Krause, LLP, dated September 5, 2014 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2014.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

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

MESABI TRUST  
(Registrant)

By: DEUTSCHE BANK TRUST COMPANY AMERICAS  
Corporate Trustee  
Principal Administrative Officer and duly authorized signatory:\*

By: DEUTSCHE BANK NATIONAL TRUST COMPANY

September 5, 2014

By: /s/ Jeffrey Schoenfeld  
Name: Jeffrey Schoenfeld\*  
Title: Assistant Vice President

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\* There are no principal executive officers or principal financial officers of the registrant.

**EXHIBIT INDEX**

<b>Item No.</b>	<b>Item</b>	<b>Filing Method</b>
31	Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Corporate Trustee of Mesabi Trust pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.1	Report of Baker Tilly Virchow Krause, LLP, dated September 5, 2014 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2013.	Filed herewith
101.INS	XBRL Instance Document (Interactive Data File)	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema (Interactive Data File)	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (Interactive Data File)	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase (Interactive Data File)	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase (Interactive Data File)	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (Interactive Data File)	Filed herewith