NORTH EUROPEAN OIL ROYALTY TRUST
Form 10-Q
August 30, 2016

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, 2016 or

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

For the transition period from ___________ to ____________ .

Commission file number 1-8245

NORTH EUROPEAN OIL ROYALTY TRUST
(Exact name of registrant as specified in its charter)

Delaware	22-2084119
(State of organization)	(I.R.S. Employer I.D. No.)

Suite 19A, 43 West Front Street, Red Bank, New Jersey 07701
(Address of principal executive offices)

(732) 741-4008
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

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

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

Large accelerated filer _____ Accelerated filer X

Non-accelerated filer _____ Smaller reporting company _____

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

Class	Outstanding at July 31, 2016
Units of Beneficial Interest	9,190,590

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS (NOTE 1)
JULY 31, 2016 AND OCTOBER 31, 2015
(Unaudited)

	2016	2015
ASSETS		
Current assets - - Cash and cash equivalents	$ 1,465,641	$ 2,192,865
Producing gas and oil royalty rights, net of amortization (Notes 1 and 2)	1	1
Total Assets	$ 1,465,642	$ 2,192,866
LIABILITIES AND TRUST CORPUS		
Current liabilities - - Distributions to be paid to unit owners, to be paid August 2016 and paid November 2015	$ 1,378,588	$ 2,113,835
Trust corpus (Notes 1 and 2)	1	1
Undistributed earnings	87,053	79,030
Total Liabilities and Trust Corpus	$ 1,465,642	$ 2,192,866

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

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE THREE MONTHS ENDED JULY 31, 2016 AND 2015

(Unaudited)

	2016	2015
Gas, sulfur and oil royalties received	$ 1,561,026	$ 3,459,645
Interest income	1,204	2,248
Trust Income	$ 1,562,230	$ 3,461,893
Non-related party expenses	(147,022)	(133,380)
Related party expenses (Note 3)	(26,412)	(16,206)
Trust Expenses	(173,434)	(149,586)
Net Income	$ 1,388,796	$ 3,312,307
Net income per unit	$ .15	$ .36
Distributions per unit paid or to be paid to unit owners	$ .15	$ .36

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

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE NINE MONTHS ENDED JULY 31, 2016 AND 2015

(Unaudited)

	2016	2015
Gas, sulfur and oil royalties received	$ 5,727,167	$10,140,493
Interest income	3,999	7,899
Trust Income	$ 5,731,166	$10,148,392
Non-related party expenses	(587,675)	(595,894)
Related party expenses (Note 3)	(80,644)	(68,780)
Trust Expenses	(668,319)	(664,674)
Net Income	$ 5,062,847	$ 9,483,718
Net income per unit	$0.55	$1.03
Distributions per unit paid or to be paid to unit owners	$0.55	$1.04

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

STATEMENTS OF UNDISTRIBUTED EARNINGS (NOTE 1)

FOR THE NINE MONTHS ENDED JULY 31, 2016 AND 2015

(Unaudited)

	2016	2015
Balance, beginning of period	$ 79,030	$ 170,406
Net income	5,062,847	9,483,718
	5,141,877	9,654,124
Less:		
Current year distributions paid or to be paid to unit owners	5,054,824	9,558,214
Balance, end of period	$ 87,053	$ 95,910

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

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

FOR THE NINE MONTHS ENDED JULY 31, 2016 AND 2015

(Unaudited)

	2016	2015
Sources of Cash and Cash Equivalents:		
Gas, sulfur and oil royalties received	$ 5,727,167	$10,140,493
Interest income	3,999	7,899
	5,731,166	10,148,392
Uses of Cash and Cash Equivalents:		
Payment of Trust expenses	668,319	664,674
Distributions paid	5,790,071	9,833,931
	6,458,390	10,498,605
Net increase (decrease) in cash and cash equivalents during the period	(727,224)	(350,213)
Cash and cash equivalents, beginning of period	2,192,865	3,754,736
Cash and cash equivalents, end of period	$ 1,465,641	$ 3,404,523

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

NORTH EUROPEAN OIL ROYALTY TRUST

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(1) Summary of significant accounting policies:

Basis of accounting -

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

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

The results of any interim period are not necessarily indicative of the results to be expected for the fiscal year. These financial statements should be read in conjunction with the financial statements that were included in the Trust's Annual Report on Form 10-K for the year ended October 31, 2015 (the "2015 Form 10-K"). The Statements of Assets, Liabilities and Trust Corpus included herein contain information from the Trust's 2015 Form 10-K.

Producing gas and oil royalty rights -

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

Federal and state income taxes -

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

Cash and cash equivalents -

Cash and cash equivalents are defined as amounts deposited in bank accounts and amounts invested in certificates of deposit and U. S. Treasury bills with original maturities generally of three months or less from the date of purchase. The investment options available to the Trust are limited in accordance with specific provisions of the Trust Agreement. As of July 31, 2016, the uninsured amount held in the Trust's U.S. bank accounts was $1,214,381. In addition, the Trust held Euros 9,875, the equivalent of $11,023, in its German bank account at July 31, 2016.

Net income per unit -

Net income per unit is based upon the number of units outstanding at the end of the period. As of both July 31, 2016 and 2015, there were 9,190,590 units of beneficial interest outstanding.

New accounting pronouncements -

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

(2) Formation of the Trust:

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

(3) Related party transactions:

John R. Van Kirk, the Managing Director of the Trust, provides office space and office services to the Trust at cost. For such office space and office services, the Trust reimbursed the Managing Director $6,041 and $5,417 in the third quarter of fiscal 2016 and 2015, respectively. For such office space and office services, the Trust reimbursed the Managing Director $18,871 and $16,705 in the first nine months of fiscal 2016 and 2015, respectively.

Lawrence A. Kobrin, a Trustee of the Trust, is a Senior Counsel at Cahill Gordon & Reindel LLP, which serves as counsel to the Trust. For the third quarter of fiscal 2016 and 2015, the Trust paid Cahill Gordon & Reindel LLP $20,371 and $10,789 for legal services, respectively. For the first nine months of fiscal 2016 and 2015, the Trust paid Cahill Gordon & Reindel LLP $61,773 and $52,075 for legal services, respectively.

(4) Employee benefit plan:

The Trust has established a savings incentive match plan for employees (SIMPLE IRA) that is available to both employees of the Trust, one of whom is the Managing Director. The Trustees have authorized the Trust to make contributions to the accounts of the employees, on a matching basis, of up to 3% of cash compensation paid to each employee effective for the 2016 and 2015 calendar years.

(5) Subsequent event:

On August 26, 2016 North European Oil Royalty Trust executed amendments to its existing royalty agreements with Oldenburgische Erdolgesellschaft mbH and Mobil Erdgas-Erdol GmbH establishing a new base for the determination of both gas and oil prices upon which the Trust's royalties are determined. This change reflects a shift from the use of gas and oil ex-field prices ("contractual prices") to the prices calculated for the respective public assessment base ("German border import prices") and now matches the German State royalty calculation basis which is codified in the pertinent German State Royalty Code (Niedersachsische Verordnung uber die Feldes- und die Forderabgabe). Full details regarding this event are described later in this Form 10-Q in Part II, Item 5 on page 21 and the relevant exhibits on pages 23 and 24.

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

Executive Summary

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

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

The properties of the Trust, which the Trust and Trustees hold pursuant to the Trust Agreement on behalf of the unit owners, are overriding royalty rights on sales of gas, sulfur and oil under certain concessions or leases in the Federal Republic of Germany. The actual leases or concessions are held either by Mobil Erdgas-Erdol GmbH ("Mobil Erdgas"), a German operating subsidiary of the ExxonMobil Corp. ("ExxonMobil"), or by Oldenburgische Erdolgesellschaft ("OEG"). The Oldenburg concession is the primary area from which the natural gas, sulfur and oil are extracted and provides nearly 100% of all the royalties received by the Trust. The Oldenburg concession (approximately 1,386,000 acres) covers virtually the entire former Grand Duchy of Oldenburg and is located in the German federal state of Lower Saxony.

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

Vermilion Energy Inc. ("Vermilion"), a Canadian based international oil and gas producer, entered into a Farm-In Agreement (the "Farm-In Agreement") with Mobil Erdgas and BEB effective as of January 1, 2016. The Trust has been advised by EMPG that the Farm-In Agreement specifies that Vermilion has acquired an interest in various portions of a concession or areas owned by Mobil Erdgas and BEB, including the three northernmost areas of the Oldenburg concession. The Farm-In Agreement commits Vermilion to financial participation at a 50% level in 11 gross exploratory wells over the next five years. If Vermilion conducts any successful drilling within the confines of the Oldenburg concession, sales of that gas or oil would be subject to the relevant royalty contract. It has been announced that Vermilion will lead the development of its first well within the Oldenburg concession with a possible start time in 2018. The well is tentatively located in the western portion of the area designated Oldenburg-Land, the southernmost area of the three areas within the concession subject to Vermilion's Farm-In Agreement.

The operating companies pay monthly royalties to the Trust based on their sales of natural gas, sulfur and oil. Of these three products, natural gas provided approximately 97% of the cumulative royalty income received in the first nine months of fiscal 2016. The amount of royalties paid to the Trust is primarily based on four factors: the amount of gas sold, the price of that gas, the area from which the gas is sold, and the exchange rate.

On approximately the 25th of the months of January, April, July and October, the operating companies calculate the amount of gas sold during the previous calendar quarter and determine the amount of royalties that were payable to the Trust based on those sales. This amount is divided into thirds and forms the monthly royalty payments (payable on the 15th of each month) to the Trust for its upcoming fiscal quarter. At the same time that the operating companies determine the actual amount of royalties that were payable for the prior calendar quarter, they look at the actual amount of royalties that were paid to the Trust for that period and calculate the difference between what was paid and what was payable. Additional amounts payable by the operating companies would be paid immediately and any overpayment would be deducted from the payment for the first month of the following fiscal quarter. In September of each year, the operating companies make the final determination of any necessary royalty adjustments for the prior calendar year with a positive or negative adjustment made accordingly. The Trust's German accountants review the royalty calculations on a biennial basis.

There are two types of natural gas found within the Oldenburg concession, sweet gas and sour gas. Sweet gas has little or no contaminants and needs no treatment before it can be sold. Sour gas, in comparison, must be processed at the Grossenkneten desulfurization plant before it can be sold. The desulfurization process removes hydrogen sulfide and other contaminants. The hydrogen sulfide in gaseous form is converted to sulfur in a solid form and sold separately. EMPG conducts maintenance on the plant generally during the summer months when demand is lower. There is no maintenance scheduled to be conducted during 2016. The operating companies have informed the Trust that, to promote greater efficiency and cost effectiveness, the production capacity of Grossenkneten will be reduced beginning in 2017.

Under one set of rights covering the western part of the Oldenburg concession (approximately 662,000 acres), the Trust receives a royalty payment of 4% on gross receipts from sales by Mobil Erdgas of gas well gas, oil well gas, crude oil and condensate (the "Mobil Agreement"). Under the Mobil Agreement, there is no deduction of costs prior to the calculation of royalties from gas well gas and oil well gas, which together accounted for approximately 99% of the cumulative royalty income received under this agreement in the first nine months of fiscal 2016. Historically, the Trust has received significantly greater royalty payments under the Mobil Agreement, as compared to the OEG Agreement described below, due to the higher royalty rate specified by that agreement.

The Trust is also entitled under the Mobil Sulfur Agreement to receive a 2% royalty on gross receipts of sales of sulfur obtained as a by-product of sour gas produced from the western part of Oldenburg. The payment of the sulfur royalty is conditioned upon sales of sulfur by Mobil Erdgas at a selling price above an agreed upon base price. This base price is adjusted annually by an inflation index. In the first nine months of fiscal 2015, the Trust received $291,196 in sulfur royalties under the Mobil Sulfur Agreement. However, the operating companies made an accounting error by including eastern Oldenburg sulfur sales for the fourth quarter of 2011, all of 2012 and the first quarter of 2015 in the calculation of the western sulfur royalties under the Mobil Sulfur Agreement. This error resulted in an overpayment of sulfur royalties previously paid to the Trust and impacted the amount of sulfur royalties received by the Trust in fiscal 2016. As a consequence, net sulfur royalty income under the Mobil Sulfur Agreement for the first nine months of fiscal 2016 was -$127,370 due to the operating companies' error and correction. The entire adjustment correcting the error with respect to Mobil sulfur royalties was included in the first quarter of fiscal 2016. The payment of the Mobil sulfur royalty for the third fiscal quarter has been delayed due to an outstanding negative adjustment related to total royalties for the third quarter of fiscal 2016 that has not yet been applied.

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

Under the Mobil and OEG Agreements, the gas is sold in one of three ways: (1) directly on the spot market; (2) between Mobil Erdgas and BEB (intra-company sales); or (3) directly to various distributors under contracts (which delineate, among other provisions, the timing, manner, volume and price of the gas sold). While gas supply contracts have in the past used the price of light heating oil in Germany as one of the primary pricing components, we have been advised that the number of such contracts now account for only a minor percentage of all Oldenburg gas sales.
In contrast, the price of gas sold on the spot market or sold between Mobil Erdgas and BEB is largely determined by the quoted market price of gas then trading as determined by supply and demand and has no relationship to the price of oil.

The Trust itself does not have access to the specific sales contracts under which gas from the Oldenburg concession is sold. However, working under a confidentiality agreement with the operating companies, the Trust's German accountants review both the contractual sales and spot market and intra-company sales periodically on behalf of the Trust to verify their correctness. The Trust's accountants in Germany have completed their examination of the operating companies for 2013 and 2014 and have detailed both positive and negative adjustments which, in the aggregate, amount to a negative adjustment of Euros 130,000 in accordance with EMPG's assessment. The Trust is disputing the correctness of this assessment but it is likely some negative adjustment may be matched against royalty income in the Trust's fourth fiscal quarter.

For unit owners, changes in the dollar value of the Euro have an immediate impact. This impact occurs at the time the royalties, which are paid to the Trust in Euros, are converted into U.S. dollars at the applicable exchange rate and transferred from Germany to the United States. In relation to the dollar, a stronger Euro would yield more dollars and a weaker Euro would yield less dollars.

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

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

The low level of administrative expenses of the Trust limits the effect of inflation on costs. Sustained price inflation would be reflected in sales prices. Sales prices along with sales volumes form the basis on which the royalties paid to the Trust are computed.

Results: Third Quarter of Fiscal 2016 Versus Third Quarter of Fiscal 2015

Total royalties received during the third quarter of fiscal 2016 were primarily derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the second calendar quarter of 2016. A distribution of 15 cents per unit will be paid on August 31, 2016 to owners of record as of August 19, 2016. Comparisons of total royalties received and net income for the third quarter of fiscal 2016 and 2015 are shown below.

	3rd Fiscal Quarter Ended 7/31/2016	3rd Fiscal Quarter Ended 7/31/2015	Percentage Change
Total Royalties Received	$1,561,026	$3,459,645	- 54.88%
Net Income	$1,388,796	$3,312,307	- 58.07%
Distributions per Unit	$0.15	$0.36	- 58.33%

The decline in total royalties received between the third quarter of fiscal 2016 and the third quarter of fiscal 2015 resulted from three separate elements determining royalty income. The first element relates to accounting adjustments that are derived from the over or underpayment of royalties from prior quarters or years which are required to reconcile advanced estimated payments to actual results. The second element relates to sulfur royalty payments under the Mobil Agreement. The third element relates to gas sales from the immediately preceding calendar quarter and reflects changes in the factors affecting gas royalties, namely gas sales, gas prices and the average exchange rates.

With regard to the first element impacting total royalties received, the net amount of such adjustments reduced royalties for the third quarter of fiscal 2016 by $407,560. In comparison, in the third quarter of fiscal 2015, the net amount of such adjustments reduced royalties by $35,346. The impact of these adjustments is reflected in the figures shown in the table above.

With regard to the second element impacting total royalties received, the Trust did not receive a separate sulfur royalty payment under the Mobil Agreement in the third quarter of fiscal 2016. In comparison, in the third quarter of fiscal 2015, the Trust received a separate sulfur royalty payment of $74,523. The impact of these sulfur payments is reflected in the figures shown in the table above.

The table below is intended to illustrate the third element affecting total royalties received by detailing the factors determining the gas royalties payable from the preceding calendar quarter. Gas royalties are based solely on the actual gas sales that occurred during the second calendar quarters of 2016 and 2015 and do not reflect any adjustments for prior periods.

Factors Determining Gas Royalties Payable

Mobil Agreement	2nd Calendar Quarter Ended 6/30/2016	2nd Calendar Quarter Ended 6/30/2015	Percentage Change
Gas Sales (Bcf)(1)	4.916	7.382	- 33.41%
Gas Prices (Ecents/Kwh)(2)	1.5363	2.0017	- 23.25%
Average Exchange Rate(3)	1.1185	1.1113	+ 0.65%
Gas Royalties	$969,471	$1,884,107	- 48.54%
Gas Prices ($/Mcf)(4)	$4.93	$6.38	- 22.73%
OEG Agreement			
Gas Sales (Bcf)	17.520	22.591	- 22.45%
Gas Prices (Ecents/Kwh)	1.5667	2.0401	- 23.20%
Average Exchange Rate	1.1159	1.1159	0.00%
Gas Royalties	$408,480	$ 796,230	- 48.70%
Gas Prices ($/Mcf)	$4.89	$6.38	- 23.35%

(1) Billion cubic feet
(2) Euro cents per Kilowatt hour
(3) Based on average exchange rates of cumulative royalty transfers
(4) Dollars per thousand cubic feet

Excluding the effects of differences in prices and average exchange rates, the combination of royalty rates on gas sold from western Oldenburg results in an effective royalty rate approximately seven times higher than the royalty rate on gas sold from eastern Oldenburg. This is of particular significance to the Trust since gas sold from western Oldenburg provides the bulk of royalties paid to the Trust. For the calendar quarter ended June 30, 2016, gas sales from western Oldenburg accounted for only 28.06% of all gas sales. However, royalties on these gas sales provided approximately 83.49% of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the third quarter of fiscal 2016 increased 15.94% or $23,848 to $173,434 in comparison to $149,586 for the third quarter of fiscal 2015. The increase was due to higher domestic legal and German accounting expenses regarding a dispute about a possible error by EMPG in the Trust's royalty calculation and a new pricing proposal by EMPG upon which the Trust's royalty calculation would be based. Trust interest income received during the third quarter of fiscal 2016 decreased to $1,204 in comparison to $2,248 received in the third quarter of fiscal 2015 due to reduced funds available for investment.

The current Statements of Assets, Liabilities and Trust Corpus of the Trust at July 31, 2016, compared to that at fiscal year-end (October 31, 2015), shows a decrease in assets due to lower royalty receipts during the third quarter of fiscal 2016.

Results: First Nine Months of Fiscal 2016 Versus First Nine Months of Fiscal 2015

Total royalties received during the first nine months of fiscal 2016 were primarily derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the fourth calendar quarter of 2015 and the first and second calendar quarters of 2016. Comparisons of total royalties received and net income for the first nine months of fiscal 2016 and 2015 are shown below.

	Nine Months Ended 7/31/2016	Nine Months Ended 7/31/2015	Percentage Change
Total Royalties Received	$5,727,167	$10,140,493	- 43.52%
Net Income	$5,062,847	$ 9,483,718	- 46.62%
Distributions per Unit	$0.55	$1.04	- 47.12%

The decline in total royalties received between the first nine months of fiscal 2016 and the first nine months of fiscal 2015 resulted from three separate elements determining royalty income. The first element relates to accounting adjustments that are derived from the over or underpayment of royalties from prior quarters or years which are required to reconcile advanced estimated payments to actual results. The second element relates to sulfur royalty payments under the Mobil Agreement. The third element relates to gas sales from the immediately preceding nine calendar month period and reflects changes in the factors affecting gas royalties, namely gas sales, gas prices and the average exchange rates.

With regard to the first element impacting total royalties received, the net amount of such adjustments reduced royalties for the first nine months of fiscal 2016 by $369,582. In comparison, in the first nine months of fiscal 2015, the net amount of such adjustments reduced royalties by $761,793. This fiscal 2015 amount included a negative adjustment of $561,584 for 2013. The impact of these adjustments is reflected in the figures shown in the table above.

With regard to the second element impacting total royalties received, the Trust received a series of negative adjustments with respect to sulfur royalty payments that, in combination with actual sulfur royalty payments, represented a reduction in overall royalties of $127,370 under the Mobil Sulfur Agreement in the first nine months of fiscal 2016.
In comparison, the Trust received sulfur royalty payments totaling $291,196 in the first nine months of fiscal 2015. The impact of these sulfur payments is reflected in the figures shown in the table above.

The table below is intended to illustrate the third element affecting total royalties received by detailing the factors determining the gas royalties payable from the preceding nine calendar months. Gas royalties are based solely on the actual gas sales that occurred during the nine calendar months ended 6/30/2016 and 6/30/2015 and do not reflect any adjustments for prior periods.

Factors Determining Gas Royalties Payable			
Mobil Agreement	Nine Months Ended 6/30/2016	Nine Months Ended 6/30/2015	Percentage Change
Gas Sales (Bcf)	18.355	22.900	- 19.85%
Gas Prices (Ecents/Kwh)	1.6642	2.2289	- 25.34%
Average Exchange Rate	1.1058	1.1355	- 2.62%
Gas Royalties	$3,877,487	$6,660,589	- 41.78%
Gas Prices ($/Mcf)	$5.28	$ 7.27	- 27.37%
OEG Agreement			
Gas Sales (Bcf)	58.461	69.225	- 15.55%
Gas Prices (Ecents/Kwh)	1.6984	2.3143	- 26.61%
Average Exchange Rate	1.1039	1.1345	- 2.70%
Gas Royalties	$1,564,470	$2,895,282	- 45.96%
Gas Prices ($/Mcf)	$5.26	$ 7.36	- 28.53%

For the nine months ended 6/30/2016, gas sales from western Oldenburg accounted for only 31.40% of all gas sales. However, royalties on these gas sales provided approximately 80.49% of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the first nine months of fiscal 2016 increased 0.55% or $3,645 to $668,319 in comparison to $664,674 for the prior fiscal year's equivalent period. This increase in expenses is due to higher accounting costs associated with the biennial examination by the Trust's German accountants of the royalty payments. Trust interest income received during the first nine months of fiscal 2016 decreased to $3,999 in comparison to $7,899 received in the first nine months of fiscal 2015 due to reduced funds available for investment.

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

1. risks and uncertainties concerning levels of gas production and gas sale prices, general economic conditions and currency exchange rates;

2. the ability or willingness of the operating companies to perform under their contractual obligations with the Trust;

3. potential disputes with the operating companies and the resolution thereof; and

4. the risk factors set forth under Item 1A of the Trust's Annual Report on Form 10-K for the year ended October 31, 2015.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

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

The Managing Director has performed an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of July 31, 2016 based on the criteria for effective internal control over financial reporting described in the standards promulgated by the Public Company Accounting Oversight Board and the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the Managing Director concluded that the Trust's disclosure controls and procedures were effective as of July 31, 2016.

There have been no changes in the Trust's internal control over financial reporting identified in connection with the evaluation described above that occurred during the third quarter of fiscal 2016 that have materially affected or are reasonably likely to materially affect the Trust's internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 5. Other Information.

On August 26, 2016 North European Oil Royalty Trust (the "Trust") executed amendments to its existing royalty agreements with Oldenburgische Erdolgesellschaft mbH ("OEG") and Mobil Erdgas-Erdol GmbH ("Mobil") (the "Amendment Agreements") establishing a new base for the determination of both gas and oil prices upon which the Trust's royalties are determined. This change reflects a shift from the use of gas and oil ex-field prices ("contractual prices") to the prices calculated for the respective public assessment base ("German border import prices") and now matches the German State royalty calculation basis which is codified in the pertinent German State Royalty Code (Niedersachsische Verordnung uber die Feldes- und die Forderabgabe).

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

The foregoing description is qualified in its entirety by the English language translation of the Amendment Agreements, which are attached hereto as Exhibit 10.1 and 10.2 and are incorporated herein by reference. Although the English translations are intended to be as accurate as possible, the definitive texts are the original German versions.

Item 6. Exhibits.

Exhibit 10.1. English language translation of Amendment Agreement dated August 26, 2016 between Oldenburgische Erdolgesellschaft mbH and North European Oil Royalty Trust.

Exhibit 10.2. English language translation of Amendment Agreement dated August 26, 2016 between Mobil Erdgas-Erdol GmbH and North European Oil Royalty Trust.

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

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

SIGNATURE

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

NORTH EUROPEAN OIL ROYALTY TRUST
(Registrant)

/s/ John R. Van Kirk
John R. Van Kirk
Managing Director

August 30, 2016