

MESABI TRUST  
Form 10-Q  
June 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2018

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

c/o Deutsche Bank Trust Company Americas

Trust & Agency Services

60 Wall Street

16th Floor

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

(904) 271-2520

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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		Accelerated filer
Non-accelerated filer	(Do not check if smaller reporting company)	Smaller reporting company
		Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 June 8, 2018, there were 13,120,010 Units of Beneficial Interest in Mesabi Trust outstanding.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements. (Note 1)

## Mesabi Trust

## Condensed Statements of Operations

Three Months Ended April 30, 2018 and 2017

	Three Months Ended April 30,	
	2018 (unaudited)	2017 (unaudited)
A. Condensed Statements of Operations		
Revenues		
Royalty income	\$ 6,646,670	\$ 4,760,429
Interest	37,377	6,542
Total revenues	6,684,047	4,766,971
Expenses	368,199	295,046
Net income	\$ 6,315,848	\$ 4,471,925
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING		
Number of units outstanding	13,120,010	13,120,010
Net income per unit (Note 2)	\$ 0.4814	\$ 0.3408
Distributions declared per unit (Note 3)	\$ 0.4500	\$ 0.5500

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Balance Sheets

April 30, 2018 and January 31, 2018

	April 30, 2018 (unaudited)	January 31, 2018
<b>B. Condensed Balance Sheets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 3,029,479	\$ 314,835
U.S. Government securities, at amortized cost (which approximates market)	8,315,795	23,797,451
Accrued income receivable	4,294,659	1,956,091
Contract asset	1,430,427	99,264
Prepaid expenses	69,151	54,640
Current assets	17,139,511	26,222,281
Fixed property, including intangibles, at nominal values		
Assignments of leased property		
Amended assignment of Peters Lease	1	1
Assignment of Cloquet Leases	1	1
Certificate of beneficial interest for 13,120,010 units of Land Trust	1	1
	3	3
Total assets	\$ 17,139,514	\$ 26,222,284
<b>Liabilities, Unallocated Reserve And Trust Corpus</b>		
<b>Liabilities</b>		
Distribution payable	\$ 5,904,005	\$ 15,481,612
Accrued expenses	216,988	133,994
Total liabilities	6,120,993	15,615,606
Unallocated reserve	11,018,518	10,606,675
Trust corpus	3	3
Total liabilities, unallocated reserve and trust corpus	\$ 17,139,514	\$ 26,222,284

See Notes to Condensed Financial Statements.



## Mesabi Trust

## Condensed Statements of Cash Flows

Three Months Ended April 30, 2018 and 2017

	Three Months Ended	
	April 30,	
	2018	2017
	(unaudited)	(unaudited)
C. Condensed Statements of Cash Flows		
Operating activities		
Royalties received	\$ 2,997,561	\$ 366,840
Interest received	16,755	3,545
Expenses paid	(299,716)	(301,911)
Net cash from operating activities	2,714,600	68,474
Investing activities		
Maturities of U.S. Government securities	15,853,108	82,628
Purchases of U.S. Government securities	(371,452)	—
Net cash from investing activities	15,481,656	82,628
Financing activity		
Distributions to unitholders	(15,481,612)	(1,836,801)
Net change in cash and cash equivalents	2,714,644	(1,685,699)
Cash and cash equivalents, beginning of period	314,835	13,695,168
Cash and cash equivalents, end of period	\$ 3,029,479	\$ 12,009,469
Reconciliation of net income to net cash from operating activities		
Net income	\$ 6,315,848	\$ 4,471,925
Increase in accrued income receivable	(2,338,568)	(1,186,953)
Increase in contract asset	(1,331,163)	(1,110,218)
Increase in prepaid expense	(14,511)	(11,369)
Increase in accrued expenses	82,994	4,504
Decrease in contract liability	—	(2,099,415)
Net cash from operating activities	\$ 2,714,600	\$ 68,474
Non cash financing activity		
Distributions declared and payable	\$ 5,904,005	\$ 7,216,006

See Notes to Condensed Financial Statements.

4

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Mesabi Trust

Notes to Condensed Financial Statements

April 30, 2018 (Unaudited)

Note 1. The financial statements and notes to financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2018) 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 ended April 30, 2018 and 2017, (b) the financial position at April 30, 2018 and (c) the cash flows for the three months ended April 30, 2018 and 2017, 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, 2018.

Recent Accounting Pronouncements

Revenue from Contracts with Customers

Mesabi Trust adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers and ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date ("ASC 606") on February 1, 2018 using the full retrospective transition method, under which it is required to revise its financial statements for the year ended January 31, 2018, as well as any applicable interim periods within the year ended January 31, 2018, as if ASC 606 had been effective for those periods. Under ASC 606, the Trust recognizes revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. See Note 2 for disclosures required by ASU 2014-09, including the Trust's revenue recognition accounting policies.

The cumulative effect of adopting ASC 606 was an increase in the January 31, 2018 unallocated reserve of approximately \$99,000.

The following tables present the effect of the adoption of ASC 606 on the Trust's financial statements included in this report.

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	Three Months Ended April 30, 2017 (As Previously Reported)	Adoption of ASC 606	Three Months Ended April 30, 2017 (As Adjusted)
Condensed Statements of Operations			
Revenues			
Royalty income	\$ 3,650,211	\$ 1,110,218	\$ 4,760,429
Interest	6,542	—	6,542
Total revenues	3,656,753	1,110,218	4,766,971
Expenses	295,046	—	295,046
Net income	\$ 3,361,707	\$ 1,110,218	\$ 4,471,925
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING			
Number of units outstanding	13,120,010	13,120,010	13,120,010
Net income per unit	\$ 0.2562	\$ 0.0846	\$ 0.3408
Distributions declared per unit	\$ 0.5500	\$ —	\$ 0.5500

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	January 31, 2018 (As Previously Reported)	Adoption of ASC 606	January 31, 2018 (As Adjusted)
<b>Condensed Balance Sheets</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 314,835	\$ —	\$ 314,835
U.S. Government securities, at amortized cost (which approximates market)	23,797,451	—	23,797,451
Accrued income receivable	1,956,091	—	1,956,091
Contract asset	—	99,264	99,264
Prepaid expenses	54,640	—	54,640
Current assets	26,123,017	99,264	26,222,281
<b>Fixed property, including intangibles, at nominal values</b>			
Assignments of leased property			
Amended assignment of Peters Lease	1	—	1
Assignment of Cloquet Leases	1	—	1
Certificate of beneficial interest for 13,120,010 units of Land Trust	1 3	— —	1 3
Total assets	\$ 26,123,020	\$ 99,264	\$ 26,222,284
<b>Liabilities, Unallocated Reserve And Trust Corpus</b>			
<b>Liabilities</b>			
Distribution payable	\$ 15,481,612	\$ —	\$ 15,481,612
Accrued expenses	133,994	—	133,994
Total liabilities	15,615,606	—	15,615,606
Unallocated reserve	10,507,411	99,264	10,606,675
Trust corpus	3	—	3
Total liabilities, unallocated reserve and trust corpus	\$ 26,123,020	\$ 99,264	\$ 26,222,284

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	Three Months Ended April 30, 2017 (As Previously Reported)	Adoption of ASC 606	Three Months Ended April 30, 2017 (As Adjusted)
<b>Condensed Statements of Cash Flows</b>			
<b>Operating activities</b>			
Royalties received	\$ 366,840	\$ —	\$ 366,840
Interest received	3,545	—	3,545
Expenses paid	(301,911)	—	(301,911)
Net cash from operating activities	68,474	—	68,474
<b>Investing activities</b>			
Maturities of U.S. Government securities	82,628	—	82,628
<b>Financing activity</b>			
Distributions to unitholders	(1,836,801)	—	(1,836,801)
Net change in cash and cash equivalents	(1,685,699)	—	(1,685,699)
Cash and cash equivalents, beginning of year	13,695,168	—	13,695,168
Cash and cash equivalents, end of year	\$ 12,009,469	\$ —	\$ 12,009,469
<b>Reconciliation of net income to net cash from operating activities</b>			
Net income	\$ 3,361,707	\$ 1,110,218	\$ 4,471,925
Increase in accrued income receivable	(1,186,953)	—	(1,186,953)
Increase in contract asset	—	(1,110,218)	(1,110,218)
Increase in prepaid expense	(11,369)	—	(11,369)
Increase in accrued expenses	4,504	—	4,504
Decrease in deferred royalty revenue	(2,099,415)	2,099,415	—
Decrease in contract liability	—	(2,099,415)	(2,099,415)
Net cash from operating activities	\$ 68,474	\$ —	\$ 68,474
<b>Non cash financing activity</b>			
Distributions declared and payable ggggg	\$ 7,216,006	\$ —	\$ 7,216,006

Note 2. Net income per unit is based on 13,120,010 units outstanding during the period. The Trust accounts for revenue in accordance with ASC 606, Revenue from Contracts with Customers. All revenue is recognized as the performance obligations are satisfied.

Disaggregation of Revenues

The following table represents a disaggregation of revenue for the three months ended April 30:

	2018	2017
Base overriding royalties	\$ 3,857,485	\$ 2,646,414
Bonus royalties	2,634,231	1,965,520
Fee royalties	154,954	148,495
Total royalty income	\$ 6,646,670	\$ 4,760,429

7

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#### Base overriding royalties

The performance obligation for the base overriding royalty consists of providing Northshore Mining (“Northshore”) access to the Peters Lands, Cloquet Lands, and Mesabi Lands and the right to mine on these lands. The consideration to be received from this access relates to the volume of iron ore shipped by Northshore. Mesabi Trust receives royalties at the greater of (i) the aggregate quantity of iron ore products shipped that were 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 such year, 85% of the next two million tons shipped during such year, and 25% of all tonnage shipped 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. The base overriding royalties contain variable consideration, as the transaction price is based on a percentage that varies based on the total cumulative tons of iron ore shipped for the calendar year. The Trust estimates the variable consideration it expects to be entitled to receive over the contractual period associated with royalty agreement, which resets the royalty percentages at the beginning of each calendar year. The Trust evaluates the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, the Trust includes the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. For the base overriding royalties, the Trust estimates the base overriding royalty percentage using the expected value method, which calculates the estimate based off the historical, current, and forecasted shipments. The Trust recognizes base overriding royalties on a quarterly basis based on the actual shipments for the fiscal quarter at the estimated royalty percentage as described above and based on the estimated prices for iron ore products sold under the Cliffs Pellet Agreements.

#### Bonus royalties

The performance obligation for the bonus royalties consists of providing Northshore Mining access to the Peters Lands, Cloquet Lands, and Mesabi Lands and the right to mine on these lands and the consideration to be received from this access relates to the volume of iron ore shipped by Northshore. The Trust recognizes bonus royalties on a quarterly basis based on the actual shipments of the fiscal quarter at the actual royalty percentage for those shipments and based on the anticipated prices for iron ore products sold under the Cliffs Pellet Agreements.

#### Fee royalties

The performance obligation for the fee royalties consists of the volume of crude ore mined on a quarterly basis. The Trust recognizes fee royalties on a quarterly basis based on the actual crude ore mined during the fiscal quarter.

#### Accrued income receivable

The accrued income receivable is included in net income per unit. For the three months ended April 30, 2018, the Trust recorded \$4,294,659 of accrued income receivable as reflected on the Condensed Balance Sheet as of April 30, 2018 (unaudited). As of January 31, 2018 the Trust recorded accrued income receivable of \$1,956,091. Accrued income receivable is accounted for and reported for the Trust's first fiscal quarter based on shipments during the month of April at estimated prices for iron ore products sold under the Cliffs Pellet Agreements, even though such accrued income receivable is not available for distribution to the holders of Certificates of Beneficial Interest in Mesabi Trust ("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. The Trust includes contractual amounts due within accrued income receivable.

#### Contract asset

\$1,430,427 of a contract asset is reflected on the Condensed Balance Sheet as of April 30, 2018 (unaudited). As of January 31, 2018 the Trust recorded a contract asset of \$99,264. The contract asset is accounted for and reported for the Trust's first fiscal quarter based on the revenue recognized on the base overriding royalties, at the estimated prices for iron ore products sold under the Cliffs Pellet Agreements, that will be collected in subsequent quarters as the uncertainty associated with the variable consideration is resolved. The contract asset is not available for distribution to the Unitholders until the applicable royalties are actually received by the Trust. The Trust includes estimated future royalty rates on current contracted volumes within contract asset.

#### Contract liability

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The contract liability represents an estimate of decreases in royalty revenue related to tons of iron ore that were shipped by Northshore, but for which Northshore has indicated that final pricing is not yet known and is adjusted in accordance with the Trust's revenue recognition policy each quarter as updated pricing information is received.

Note 3. The Trustees determine whether to declare a distribution each year in April, July, October and January. The Trust's financial statements are prepared on an accrual basis and present the Trust's results of operations based on each of the Trust's fiscal quarters, which end one month after the close of each calendar quarter. Because (i) distributions, if any, are declared by the Trustees based on, among other considerations, the amount of royalties actually paid to the Trust through the end of each calendar quarter prior to April, July, October and January of each year, the Trustees' evaluation of known and projected Trust expenses in the current and future quarters, the then-current level of Unallocated Reserve and general economic conditions, and (ii) 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. On April 26, 2018, the Trustees received the quarterly royalty report of iron ore product shipments from Silver Bay, Minnesota during the quarter ended March 31, 2018 from Cleveland-Cliffs Inc., formerly known as Cliffs Natural Resources Inc. ("Cleveland-Cliffs"), the parent company of Northshore. On April 13, 2018, the Trustees declared a distribution of \$0.45 per Unit of Beneficial Interest payable on May 20, 2018 to Mesabi Trust Unitholders of record at the close of business on April 30, 2018.

Each quarter, as authorized by the Agreement of Trust, the Trustees evaluate all relevant factors including all costs, expenses, obligations, and present and future liabilities of the Trust (whether fixed or contingent) in determining the prudent level of unallocated reserve in light of the unpredictable nature of the iron ore industry and current economic conditions.

Pursuant to the Agreement of Trust, the Trustees make decisions about 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 April 30, 2018 and January 31, 2018, the unallocated cash and U.S. Government securities portion of the Trust's Unallocated Reserve was comprised of the following components:



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	April 30, 2018 (unaudited)	January 31, 2018
Cash and U.S. Government securities	\$ 11,345,274	\$ 24,112,286
Distribution payable	(5,904,005)	(15,481,612)
 Unallocated cash and U.S. Government securities	 \$ 5,441,269	 \$ 8,630,674

A reconciliation of the Trust's Unallocated Reserve from January 31, 2018 to April 30, 2018 is as follows:

Unallocated Reserve, January 31, 2018	\$ 10,606,675
Net income	6,315,848
Distributions declared	(5,904,005)
 Unallocated Reserve, April 30, 2018	 \$ 11,018,518

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," "continue," "potential," "plan," "should," "assume," "forecast" and other similar words. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results and future developments could differ materially from the results or developments expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, volatility of iron ore and steel prices, market supply and demand, competition, environmental hazards, health and safety conditions, regulation or government action, litigation and uncertainties about estimates of reserves. Further, substantial portions of royalties earned by Mesabi Trust are based on estimated prices that are subject to interim and final adjustments, which can be positive or negative, and are dependent in part on multiple price and inflation index factors under 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 2 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2018, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q. Mesabi Trust undertakes no obligation, other than that imposed by law, to make any revisions to the forward-looking statements contained in this filing or to update them to reflect circumstances occurring after the date of this filing.

This discussion should be read in conjunction with the condensed financial statements and notes presented in this 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 year ended January 31, 2018 for a full understanding of Mesabi Trust's financial position and results of operations for the three month period ended April 30, 2018.

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 by the Trust.

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 20% 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 Cleveland-Cliffs. References to Northshore in this quarterly report, unless the context requires otherwise, are applicable to Cleveland-Cliffs as well.

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

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

- **Base overriding royalties.** Base overriding royalties have historically constituted the majority of the Trust's royalty income. Base overriding royalties are determined by both the volume and selling price of iron ore products shipped. Northshore is obligated to pay the Trust base overriding royalties in varying amounts, based on the volume of iron ore products shipped. Base overriding royalties are calculated as a percentage of the gross proceeds of iron ore products produced at the Mesabi 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 subject to interim and final price adjustments under the term contracts between Northshore, Cleveland-Cliffs and their customers (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. 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 \$54.74 per ton for calendar year 2017 and is \$55.74 per ton for calendar year 2018. 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 the 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, Northshore is obligated to pay to Mesabi 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. The minimum advance royalty was \$912,725 for calendar year 2017 and is \$929,320 for calendar year 2018. 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.

The current royalty rate schedule became effective on August 17, 1989 pursuant to the Amended Assignment Agreements, which the Trust entered into with Cyprus Northshore Mining Corporation (“Cyprus NMC”). Pursuant to the Amended Assignment Agreements, overriding royalties are determined by both the volume and selling price of iron ore products shipped. In 1994, Cyprus NMC was sold by its parent corporation to Cleveland-Cliffs and renamed Northshore. Cleveland-Cliffs now operates Northshore as a wholly owned subsidiary.

Under the relevant agreements, Northshore has the right to mine and ship iron ore products from lands other than Mesabi Trust Lands. Northshore alone determines whether to conduct mining operations on Mesabi Trust Lands 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 use of iron ore products from Mesabi Trust Lands, Mesabi Trust receives royalties on stated percentages of iron ore shipped from Silver Bay, whether or not the iron ore products are from Mesabi Trust Lands. Mesabi Trust receives royalties at the greater of (i) the aggregate quantity of iron ore products shipped that were 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 such year, 85% of the next two million tons shipped during such year, and 25% of all tonnage shipped 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 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 payable to 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 payable to the Trust and, in turn, will impact cash reserves 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 Months Ended April 30, 2018 and April 30, 2017

As shown in the table below, during the three months ended April 30, 2018, production of iron ore pellets at Northshore from Mesabi Trust Lands totaled 1,378,750 tons, and shipments over the same period totaled 631,916 tons. By comparison, pellet production and shipments for the comparable period in 2017 was 1,397,947 and 692,176, respectively. For the three months ended April 30, 2018, approximately 93.1% of shipments from Silver Bay, Minnesota originated from Trust lands.

	Pellets Produced from Trust Lands (Tons)	Pellets Shipped from Trust Lands (Tons)
Three Months Ended April 30, 2018	1,378,750	631,916
April 30, 2017	1,397,947	692,176

Comparison of Royalty Income for the Three Months Ended April 30, 2018 and April 30, 2017

As reflected in the table below, the Trust’s total royalty income for the three months ended April 30, 2018 increased by \$1,886,241 to \$6,646,670 as compared to the three months ended April 30, 2017. The increase in total royalty income is due to the anticipated higher sales price per ton of iron ore during the three months ended April 30, 2018, as compared to the three months ended April 30, 2017.

The table below shows that the base overriding royalties increased \$1,211,071 and the bonus royalties increased by \$668,711 for the three months ended April 30, 2018, as compared to the three months ended April 30, 2017. Fee royalties increased by \$6,459 over the same period. The increase in the base overriding royalties and bonus royalties is attributable to an anticipated higher sales price per ton of iron ore as compared to the prior comparable period. As discussed under “Royalty bonuses” on page 11, the royalty bonuses are based on the Northshore sales price as compared to the adjusted threshold price for the calendar year. The increase in the fee royalty amount is due to an increase in the amount of iron ore mined under the Peters Lease.

The table below summarizes the components of Mesabi Trust’s total royalty income for the three months ended April 30, 2018 and April 30, 2017, respectively:

	Three Months Ended	
	April 30,	
	2018	2017
Base overriding royalties	\$ 3,857,485	\$ 2,646,414
Bonus royalties	2,634,231	1,965,520
Minimum advance royalty paid (recouped)	—	—
Fee royalties	154,954	148,495
Total royalty income	\$ 6,646,670	\$ 4,760,429

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### Comparison of Net Income, Expenses and Distributions for the Three Months Ended April 30, 2018 and April 30, 2017

Net income for the three months ended April 30, 2018 was \$6,315,848, an increase of \$1,843,923 as compared to the three months ended April 30, 2017. The increase in net income for the three months ended April 30, 2018 was the result of an anticipated higher sales price per ton of iron ore, as compared to the three months ended April 30, 2017. The table below summarizes the Trust's income and expenses for the three months ended April 30, 2018 and April 30, 2017, respectively.

	Three Months Ended	
	April 30,	
	2018	2017
Total royalty income	\$ 6,646,670	\$ 4,760,429
Interest income	37,377	6,542
Total revenues	6,684,047	4,766,971
Expenses	368,199	295,046
Net income	\$ 6,315,848	\$ 4,471,925

As presented on the "Trust's Condensed Statements of Operations" on page 2 of this quarterly report, the Trust's net income per unit increased \$0.1406 per unit to \$0.4814 per unit per unit for the three months ended April 30, 2018 as compared to the three months ended April 30, 2017. On April 13, 2018, the Trust declared a distribution of \$0.45 per unit payable on May 20, 2018 to Unitholders of record on April 30, 2018. Comparatively, the Trust declared a distribution of \$0.55 per unit to Unitholders in April 2017.

On a quarterly basis, the Trustees review a variety of financial and economic data and information impacting the Trust, and upon the Trustees' determination, distributions may be declared approximately three months after the Trustees receive a quarterly royalty report from Northshore and Cleveland-Cliffs and the Trust receives the royalty payment itself with respect to royalty income that is payable for iron ore shipments through the end of each prior calendar quarter. 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 April 30, 2018, April 30, 2017 and January 31, 2018



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As set forth in the tables below, Unallocated Reserve, which is comprised of accrued income receivable, contract asset, unallocated cash and U.S. Government securities, and prepaid expenses and accrued expenses increased from \$7,632,794 as of April 30, 2017 to \$11,018,518 as of April 30, 2018. The increase in Unallocated Reserve as of April 30, 2018, as compared to April 30, 2017, is primarily the result of an increase in the accrued income receivable. The increase in the accrued income receivable is the result of an anticipated higher sales price per ton of iron ore for the three months ended April 30, 2018 as compared to the three months ended April 30, 2017.

	Fiscal Three months ended	
	April 30,	
	2018	2017
Accrued Income Receivable	\$ 4,294,659	\$ 1,231,998
Contract Asset	1,430,427	1,281,623
Unallocated Cash and U.S. Government Securities	5,441,269	5,166,893
Prepaid Expenses and (Accrued Expenses), net	(147,837)	(47,720)
Unallocated Reserve	\$ 11,018,518	\$ 7,632,794

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 Report on Form 10-K for the fiscal year ended January 31, 2018.

The Trust's Unallocated Reserve as of April 30, 2018 increased by \$411,843 to \$11,018,518, as compared to the fiscal year ended January 31, 2018. The increase in Unallocated Reserve as of April 30, 2018, as compared to January 31, 2018, is primarily the result of an increase in the accrued income receivable and contract asset. The increase in the accrued income receivable and contract asset portions of the Unallocated Reserve is the result of a higher volume of shipments in April 2018 as compared to January 2018. The decrease in the unallocated cash and U.S. Government securities is the result of when royalties are received compared to when distributions are declared, which is discussed further in "Note 3" on page 5. As of April 30, 2018, the Trust's Unallocated Reserve consisted of \$5,441,269 of unallocated cash and U.S. Government securities and \$4,294,659 of accrued income receivable. At

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January 31, 2018, the Trust's Unallocated Reserve consisted of \$8,630,674 in unallocated cash and U.S. Government securities and \$1,956,091 of accrued income receivable.

Each quarter, as authorized by the Agreement of Trust, the Trustees will reevaluate all relevant factors including all costs, expenses, obligations, and present and future liabilities of the Trust (whether fixed or contingent) in determining a prudent level of unallocated reserve in light of the unpredictable nature of the iron ore industry, current and projected future mining operations and current economic conditions. 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 anticipated 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 iron ore and steel industry, may adversely affect the amount and timing of such future shipments and sales. The Trustees will continue to monitor the economic and other circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain adequate reserves at a prudent level, given the unpredictable nature of the iron ore and steel industry, the Trust's dependence on the actions of the lessee/operator, and the fact that the Trust essentially has no other liquid assets.

### Recent Developments

### Quarterly Royalty Report

On April 27, 2018, the Trustees announced that the Trust received from Cleveland-Cliffs the quarterly royalty report of iron ore product shipments from Silver Bay, Minnesota during the quarter ended March 31, 2018.

As reported to Mesabi Trust by Cleveland-Cliffs in the quarterly royalty report, based on shipments of iron ore products by Northshore during the three months period ended March 31, 2018, Mesabi Trust was credited with a base royalty of \$567,803. Mesabi Trust also was credited with a bonus royalty in the amount of \$681,364. Royalties paid to Mesabi Trust reflected the addition of \$1,595,468 as a result of net positive pricing adjustments to base and bonus royalty calculations related to changes in price estimates made in the previous calendar quarters of 2017. Accordingly, the total royalty payments received by Mesabi Trust on April 30, 2018 from Northshore were \$2,997,561 (which includes a royalty payment of \$152,926 paid to the Mesabi Land Trust).

Royalties paid to Mesabi Trust are based on the volume of shipments of iron ore pellets for the quarter and the year to date, the pricing of iron ore product sales, and the percentage of iron ore pellet shipments by Northshore from Mesabi Trust lands rather than from non-Mesabi Trust lands. In the first calendar quarter of 2018, Northshore credited Mesabi Trust with 195,764 tons of iron ore shipped, as compared to 283,537 tons of iron ore shipped during the first calendar quarter of 2017.

The volume of shipments of iron ore pellets (and other iron ore products) by Northshore varies from quarter to quarter and year to year based on a number of factors, including the requested delivery schedules of customers, general economic conditions in the iron ore industry, and weather conditions on the Great Lakes. Further, the prices under the Cliffs Pellet Agreement, to which Mesabi Trust is not a party, are subject to interim and final pricing adjustments, and are dependent in part on multiple prices and inflation index factors that are not known until after the end of a contract year. These multiple factors can result in significant variations in royalties received by Mesabi Trust (and in turn the

resulting funds available for distribution to Unitholders by Mesabi Trust) from quarter to quarter and from year to year. These variations, which can be positive or negative, cannot be predicted by the Trustees of Mesabi Trust. Royalty payments anticipated to be received during fiscal year 2019 will continue to reflect pricing estimates for shipments of iron ore products that will be subject to positive or negative pricing adjustments pursuant to the Cliffs Pellet Agreements. Based on the above factors and as indicated by Mesabi Trust's historical distribution payments, the royalties received by Mesabi Trust, and the distributions paid to Unitholders, if any, in any particular quarter are not necessarily indicative of royalties that will be received, or distributions that will be paid, if any, in any subsequent quarter or during any entire year.

#### Mesabi Trust Distribution Announcement

As previously reported by Mesabi Trust, on April 13, 2018, the Trustees of Mesabi Trust declared a distribution of forty-five cents (\$0.45) per Unit of Beneficial Interest payable on May 20, 2018 to Mesabi Trust Unitholders of record at the close of business on April 30, 2018.

#### Cleveland-Cliffs' Announced Capital Expenditures

In its most recent quarterly report on Form 10-Q for the quarter ended March 31, 2018, Cleveland-Cliffs disclosed that it anticipates total cash used for capital expenditures, excluding amounts attributable to construction-related contingencies and capitalized interest, during the next twelve months to be approximately \$420 million. Included within this estimate is approximately \$100 million for sustaining capital, \$250 million related to development of the HBI production plant in Toledo, Ohio and \$70 million for upgrades at the Northshore plant to enable it to produce significantly increased levels of DR-grade pellets that could be sold commercially or used as feedstock for the HBI production plant. In total, Cleveland-Cliffs expects to spend approximately \$700

million on the HBI production plant and \$90 million on the Northshore upgrades, exclusive of construction-related contingencies and capitalized interest, through 2020.

#### 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 held 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. Cleveland-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 Cleveland-Cliffs and Northshore with their customers; and (vi) the decision to mine off Mesabi Trust and/or state lands, based on Cleveland-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 Cleveland-Cliffs. While the Trustees request relevant information from Cleveland-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 Cleveland-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 2 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2018, 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 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 various benchmark pellet prices, 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. 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, pass-through royalty trust with its Trust Certificates listed on the New York Stock Exchange ("NYSE") and is therefore subject to extensive regulation under, among others, the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), each as amended, and the rules and regulations of the NYSE. Issuers failing to comply with such authorities 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 a publicly-traded pass-through royalty trust such as Mesabi Trust. In particular, Sarbanes-Oxley mandated the adoption by the Securities and Exchange Commission and NYSE of certain rules and regulations that are impossible for the Trust to literally satisfy because of its nature as a pass-through trust. Pursuant to NYSE rules, as a pass-through royalty trust, the Trust is exempt from many of the corporate governance requirements that apply to other publicly traded corporations. The Trust does not have, nor does the Agreement of Trust provide for, a board of directors, an audit committee, a corporate governance committee, a compensation committee or executive officers. The Trustees closely monitor the Securities and Exchange Commission's and NYSE's rulemaking activities and will comply with their rules and regulations to the extent applicable.

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

### Critical Accounting Policies and Estimates

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. These estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The Trustees base their estimates and judgments on historical experience and on various other assumptions that the Trustees believe are reasonable under the circumstances. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Critical accounting policies are those that have meaningful impact on the reporting of the Trust's financial condition and results of operations, and that require significant judgment and estimates.

Other than the additional estimates as a result of ASC 606 discussed above, there have been no material changes in the Trust's critical accounting policies or significant accounting estimates during the three months ended April 30, 2018. 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, 2018.

### Certain Tax Information

The Trust is not taxable as a corporation for federal or state income tax purposes and is instead qualified as a nontaxable grantor trust. Since the Trust's inception, all net taxable income is annually attributable directly to Unitholders for tax purposes regardless of whether the income is distributed or retained by the Trust in its reserve account. As such, in lieu of the Trust paying income taxes, Unitholders report their pro rata share of the various items of Trust income and deductions on their income tax returns. This reporting is required whether or not the earnings of the Trust are distributed as to Unitholders. During calendar 2018, any funds retained to increase the Trust's unallocated reserve, which were derived from reportable royalty income, will nonetheless become taxable as reportable income to Unitholders, depending on each individual's personal tax situation. Information regarding the background on the changes in the Trust's unallocated reserve is described above under "Results of Operations — Comparison of Unallocated Reserve as of April 30, 2018, April 30, 2017 and January 31, 2018" on page 9. Unitholders are encouraged to consult with their own tax advisors to plan for any financial impact related to this and to review their personal tax situations related to investing in, holding or selling units of beneficial interest in Mesabi Trust.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

**Evaluation of Disclosure Controls and Procedures.** The Trust maintains a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it furnishes or files 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. Due to the pass-through nature of the Trust, the Trust's disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by Mesabi Trust is received from Cleveland-Cliffs and its wholly-owned subsidiary, Northshore. In order to help ensure the accuracy and completeness of the information required to be disclosed in the Trust's periodic and current reports, the Trust employs certified public accountants, geological consultants, and attorneys. These professionals hired by the Trust advise the Trust in its review and compilation of the information in this Form 10-Q and the other periodic reports filed by the Trust with the SEC.

As part of their evaluation of Mesabi Trust's disclosure controls and procedures, the Trustees rely on quarterly shipment and royalty calculations provided by Northshore and Cleveland-Cliffs. Because Northshore has declined to provide 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 Cleveland-Cliffs, certifying as to the accuracy of the royalty calculations, and (b) the related due diligence review performed by the Trust's accountants. In addition, Mesabi 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 Eveleth Fee Office, Inc., an independent consultant to Mesabi Trust ("Eveleth Fee Office"). Eveleth Fee Office performs inspections of the Northshore mine and its pelletizing operations, observes production and shipping activities, gathers production and shipping information from Northshore and prepares monthly production and shipment reports for the Trustees. Furthermore, as part of its engagement by Mesabi Trust,

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, other than the additional controls implemented as a result of ASC 606, 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 Trust implemented new controls as part of its effort to adopt ASC 606. The adoption of ASC 606 required the implementation of new accounting processes which changed the Trust's internal controls over revenue recognition and financial reporting. The Trust implemented these internal controls to ensure it adequately evaluated its contracts and properly assessed the impact of the new revenue recognition standard on the Trust's financial statements to facilitate its adoption. 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 Cleveland-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 2 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2018.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### Item 3. Defaults upon Senior Securities

None.



Item 4. Mine Safety Disclosures

None.

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, Cleveland-Cliffs started reporting information related to certain mine safety results at Northshore. This information is available in Part II, Item 4 of Cleveland-Cliffs' Form 10-Q filed April 24, 2018.

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 June 8, 2018 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three months ended April 30, 2018.
- 101 XBRL Instance Document

## EXHIBIT INDEX

Item No.	Item	Filing Method
31	<u>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</u>	Filed herewith
32	<u>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</u>	Filed herewith
99.1	<u>Report of Baker Tilly Virchow Krause, LLP, dated June 8, 2018 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three months ended April 30, 2018.</u>	Filed herewith
101	XBRL Instance Document	Filed herewith

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

June 8, 2018

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

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