NORTH EUROPEAN OIL ROYALTY TRUST
Form 10-Q
May 30, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2012 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 April 30, 2012
Units of Beneficial Interest	9,190,590

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

STATEMENTS OF ASSETS, LIABILITIES AND TRUST CORPUS (NOTE 1)

APRIL 30, 2012 AND OCTOBER 31, 2011

(Unaudited)

	2012	2011
ASSETS		
Current assets - - Cash and cash equivalents	$ 6,365,478	$ 5,971,866
Producing gas and oil royalty rights, net of amortization (Notes 1 and 2)	1	1
Total Assets	$ 6,365,479	$ 5,971,867
LIABILITIES AND TRUST CORPUS		
Current liabilities - - Distributions to be paid to unit owners, paid May 2012 and November 2011	$ 6,249,601	$ 5,881,977
Trust corpus (Notes 1 and 2)	1	1
Undistributed earnings	115,877	89,889
Total Liabilities and Trust Corpus	$ 6,365,479	$ 5,971,867

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 APRIL 30, 2012 AND 2011

(Unaudited)

	2012	2011
German gas, sulfur and oil royalties received	$ 6,441,635	$ 6,965,508
Interest income	11,433	1,301
Trust Income	$ 6,453,068	$ 6,966,809
Non-related party expenses	170,754	267,708
Related party expenses (Note 3)	20,200	20,107
Trust Expenses	(190,954)	(287,815)
Net Income	$ 6,262,114	$ 6,678,994
Net income per unit	$ .68	$ .73
Distributions per unit paid or to be paid to unit owners	$ .68	$ .73

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

STATEMENTS OF REVENUE COLLECTED AND EXPENSES PAID (NOTE 1)

FOR THE SIX MONTHS ENDED APRIL 30, 2012 AND 2011

(Unaudited)

	2012	2011
German gas, sulfur and oil royalties received	$12,979,896	$12,361,791
Interest income	21,557	3,684
Trust Income	$13,001,453	$12,365,475
Non-related party expenses	588,272	537,894
Related party expenses (Note 3)	71,803	64,448
Trust Expenses	(660,075)	(602,342)
Net Income	$12,341,378	$11,763,133
Net income per unit	$1.34	$1.28
Distributions per unit paid or to be paid to unit owners	$1.34	$1.28

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

STATEMENTS OF UNDISTRIBUTED EARNINGS (NOTE 1)

FOR THE SIX MONTHS ENDED APRIL 30, 2012 AND 2011

(Unaudited)

	2012	2011
Balance, beginning of period	$ 89,889	$ 65,234
Net income	12,341,378	11,763,133
	12,431,267	11,828,367
Less:		
Current year distributions paid or to be paid to unit owners	12,315,390	11,763,955
Balance, end of period	$ 115,877	$ 64,412

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

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

FOR THE SIX MONTHS ENDED APRIL 30, 2012 AND 2011

(Unaudited)

	2012	2011
Sources of cash and cash equivalents:		
German gas, sulfur and oil royalties	$12,979,896	$12,361,791
Interest income	21,557	3,684
	13,001,453	12,365,475
Uses of cash and cash equivalents:		
Payment of Trust expenses	660,075	602,342
Distributions paid	11,947,766	10,201,555
	12,607,841	10,803,897
Net increase (decrease) in cash and cash equivalents during the period	393,612	1,561,578
Cash and cash equivalents, beginning of period	5,971,866	5,211,965
Cash and cash equivalents, end of period	$ 6,365,478	$ 6,773,543

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, 2011 (the "2011 Form 10-K"). The Statements of Assets, Liabilities and Trust Corpus included herein contain information from the Trust's 2011 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 -

Included in cash and cash equivalents are amounts deposited in bank accounts and amounts invested in certificates of deposit and U. S. Treasury bills with original maturities of three months or less from the date of purchase. The investment options available to the Trust are limited in accordance with specific provisions of the Trust Agreement. As of April 30, 2012, the uninsured amounts held in the Trust's U.S. bank accounts were approximately $5,865,000. In addition, approximately $6,541 was held in the Trust's German account at April 30, 2012.

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 April 30, 2012 and 2011, 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.

Reclassifications -

Certain amounts in the financial statements of prior periods have been reclassified to conform to the current period presentation for comparative purposes.

(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 $3,476 and $3,800 in the second quarter of fiscal 2012 and 2011, respectively. For such office space and office services, the Trust reimbursed the Managing Director $12,249 and $10,254 in the first six months of fiscal 2012 and 2011, respectively.

Lawrence A. Kobrin, a Trustee of the Trust, is a Senior Counsel at Cahill Gordon & Reindel LLP, which serves as counsel to the Trust. For the second quarter of fiscal 2012 and 2011, the Trust paid Cahill Gordon & Reindel LLP $16,724 and $16,307 for legal services, respectively. For the first six months of fiscal 2012 and 2011, the Trust paid Cahill Gordon & Reindel LLP $59,554 and $54,194 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 authorized the making of contributions by the Trust to the accounts of the employees, on a matching basis, of up to 3% of cash compensation paid to each employee effective for the 2011 and 2012 calendar years.

(5) Subsequent Events:

With regard to the litigation described in the Notes to the Financial Statements included in the Trust's Annual Report on Form 10-K for the year ended October 31, 2011, the Trust was notified on May 9, 2012 that the District Court in Hannover had dismissed the Trust's claims. The Trust reviewed the court's judgment and, after consultation with its advisors, has determined that it will not proceed with the litigation. The Trust anticipates that, based on the German Statutory Fee Table, it will be required to pay opposing counsel approximately Euros 44,000.

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 (1,398,000 acres) covers virtually the entire former Principality of Oldenburg and is located in the 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.

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 94% of the total royalties. 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.

Effective with the Trust's third quarter of fiscal 2010, a new royalty payment schedule was fully implemented. At 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 forms the basis for royalty payments for the Trust's upcoming fiscal quarter and for any adjustment for the prior calendar quarter. For example, on January 25th the operating companies calculate gas sales and attributable royalties payable for the months of October through December. This amount is divided into thirds and forms the monthly royalty payments (payable on the 15th of each month) to the Trust for its fiscal quarter running from February through April. Continuing in this example, at the same time that the operating companies determine the actual amount of royalties that were payable for the months of October through December, they look at the actual amount of royalties that were paid to the Trust during the months of November through January and calculate the difference between what was payable and what was paid. Additional amounts payable by the operating companies would be paid immediately in January and any overpayment would be deducted from the February payment. The operating companies continue their calculations through the calendar year. In September of each year, the operating companies make the final determination of any necessary royalty adjustments for the prior calendar year. The Trust's German accountants review the royalty calculations on a biennial basis and are currently conducting their examination for the 2009-2010 period.

There are two types of natural gas found within the Oldenburg concession, sweet gas and sour gas. Sweet gas has little or no contaminants and needs no treatment before it can be sold. In recent years sweet gas has assumed the role of swing producer. During periods of high demand, the production of sweet gas is increased as necessary. During the summer months sweet gas production is reduced due to a general decline in demand. Sour gas, in comparison, must be processed at either the Grossenkneten or the Norddeutsche Erdgas-Aufbereitungs GmbH ("NEAG") desulfurization plants before it can be sold. The desulfurization process removes hydrogen sulfide and other contaminants. The hydrogen sulfide in gaseous form is converted to sulfur in a solid form and sold separately. For efficiency purposes, the desulfurization plants are operated at capacity on a continual basis. Any excess production from the plants is stored in underground storage for higher demand periods. As needed, the operators conduct maintenance on the plants, generally during the summer months when demand is lower. If the operator is consistent with past practice, overall production during this maintenance period would be reduced by approximately one-third as the three units in the desulfurization plant would each be shut down in sequence for approximately two weeks.

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

The Trust is also entitled under the Mobil Agreement to receive a 2% royalty on gross receipts of sales of sulfur obtained as a by-product of sour gas produced from the western part of Oldenburg. The payment of the sulfur royalty is conditioned upon sales of sulfur by Mobil Erdgas at a selling price above an agreed upon base price. This base price is adjusted annually by an inflation index. In the first six months of fiscal 2012 and 2011, the Trust received $425,001 and $318,061, respectively, in sulfur royalties under the Mobil Agreement.

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.

In 2008, NV Nederlandse Gasunie (the state owned Dutch gas distribution company) completed the purchase BEB's North German gas distribution and transmission network. As part of its normal biennial examination of the operating companies, the Trust's German accountants, on behalf of the Trust, completed their examination of the royalty payments for 2007-08. While the pipeline sale occurred in the latter half of 2008, the accountants confirmed that transportation costs continued in accordance with the authorized indexed flat rate throughout this period and that the method of royalty calculation has not been affected. The Trust has not received any indications that this pipeline sale would affect the method of royalty calculations.

However, based on advice of its German counsel, and in order to resolve a dispute with EMPG over the right of the Trust to receive royalties on amounts received by BEB on the sale of the transmission pipeline system, the Trust, along with the parallel royalty holder with a similar royalty agreement, asserted a claim for royalties on the amounts received from such sale. Efforts to resolve the claim were not successful. The parallel royalty holder filed an action in the District Court of Hannover, Germany, Civil Chamber against OEG, an affiliate of BEB. Subsequently, German counsel advised the Trustees that on December 31, 2011 the prescription, or statute of limitations, period for a claim would expire. Faced with this pending expiration, and after unsuccessfully seeking a waiver of the statute of limitations, the Trustees, on December 16, 2011, filed an application to join as a party plaintiff to the complaint previously filed by the parallel royalty holder. This joinder application was received by the court on December 19, 2011 and is pending at law as of that date. On January 13, 2012, OEG filed a response to the complaint originally filed by the parallel royalty holder. The Trust and parallel royalty holder's response was filed and a hearing took place on March 14, 2012. In the original proceeding, the Trust sought a royalty on sales proceeds in the amount of Euros 5.66 million. On May 9, 2012, the Trust was notified that the District Court in Hannover had dismissed the Trust's claims. The Trust reviewed the court's judgment and, after consultation with its advisors, has determined that it will not proceed with the litigation. The Trust anticipates that, based on the German Statutory Fee Table, it will be required to pay opposing counsel approximately Euros 44,000.

Under the Mobil and OEG Agreements, the gas is sold to various distributors under long term contracts which delineate, among other provisions, the timing, manner, volume and price of the gas sold. The pricing mechanisms contained in these contracts include a delay factor of three to six months and use the price of light heating oil in Germany as one of the primary pricing components. Since Germany must import a large percentage of its energy requirements, the U.S. dollar price of oil on the international market has a significant impact on the price of light heating oil and a delayed impact on the price of gas. The Trust does not have access to the specific sales contracts under which gas from the Oldenburg concession is sold. Working under a confidentiality agreement with the operating companies, the Trust's German accountant examines these contracts periodically on behalf of the Trust to verify the correctness of application of the Agreement formulas for the computation of royalty payments.

For unit owners, changes in the dollar value of the Euro have both an immediate and long-term impact. The immediate impact is from the exchange rate that is applied at the time the royalties, paid to the Trust in Euros, are converted into U.S. dollars at the time of their transfer from Germany to the United States. In relation to the dollar, a stronger Euro would yield more dollars and a weaker Euro would yield less dollars. The long-term impact relates to the mechanism of gas pricing contained in the gas sales contracts negotiated by the operating companies. These gas sales contracts often use the price of German light heating oil as one of the primary pricing factors by which the price of gas is determined. The price of German light heating oil, which is a refined product, is largely determined by the price of the imported crude oil from which it was refined. Oil on the international market is priced in dollars. However, when oil is imported into Germany it is purchased in Euros, and at this point the dollar value of the Euro becomes relevant. A weaker Euro would buy less oil making that oil and the subsequently refined light heating oil more expensive. A stronger Euro would buy more oil making that oil and the subsequently refined light heating oil less expensive. Because changes in the price of German light heating oil are subsequently reflected in the price of gas through the gas sales contracts, the dollar/Euro relationship can make the prices of gas higher or lower. The changes in gas prices that result from changes in the prices of German light heating oil are only reflected after a built-in delay of three to six months as specified in the individual gas sales contracts.

Seasonal demand factors affect the income from royalty rights insofar as they relate to energy demands and increases or decreases in prices, but on average they are generally not material to the regular 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 EMPG. In his position as consultant, he receives reports from the operating companies with respect to current and planned drilling and exploration efforts. However, the unified exploration and production venture, EMPG, which provides the reports to the Trust's consultant, continues to limit the information flow to that which is required by German law.

The low level of administrative expenses of the Trust limits the effect of inflation on its financial prospects. Sustained price inflation, which would be reflected in sales prices, along with sales volumes, form the basis on which the royalties paid to the Trust are computed.
The impact of inflation or deflation on energy prices in Germany is delayed by the use, in certain long-term gas sales contracts, of a delay factor of three to six months prior to the application of any changes in light heating oil prices to gas prices.

Results: Second Quarter Fiscal 2012 Versus Second Quarter Fiscal 2011

For the second quarter of fiscal 2012, the Trust's net income was $6,262,114, a decrease of 6.24% from the net income of $6,678,994 for the second quarter of fiscal 2011. Total royalties received during the second quarter of fiscal 2012 were derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the first calendar quarter of 2012. These royalties were derived primarily from sale of gas from the Trust's overriding royalty areas in Germany. A distribution of 68 cents per unit was paid on May 30, 2012 to owners of record as of May 11, 2012.

Gas royalty income under both the Mobil and the OEG Agreements in the second quarter of 2012 was lower in comparison to income received during the second quarter of 2011 due to the combination of lower gas sales and lower average exchange rates in the second quarter of 2012. The decrease in total royalty income for the second quarter of fiscal 2012 in comparison to the second quarter of fiscal 2011 did not result solely from the previously mentioned factors, but also because of the impact of the receipt in the second quarter of fiscal 2011 of two prior year adjustments and two prior quarter sulfur payments totaling approximately $243,000. Additionally, two positive adjusting payments were received during April 2011 which brought the total amount of royalties received during the second quarter of fiscal 2011 to a level supported by the then current gas sales, gas prices and exchange rates.

	2nd Fiscal Qtr. Ended 4/30/2012	2nd Fiscal Qtr. Ended 4/30/2011	Percentage Change
Total Royalties Received	$6,441,635	$6,965,508	- 7.52%
Net Income	$6,262,114	$6,678,994	- 6.24%
Distributions per Unit	$0.68	$0.73	- 6.85%

The amount of gas royalties payable to the Trust is based on four primary factors: the amount of gas sold, the price of that gas, the area from which the gas is sold and the exchange rate. Gas sales are measured in billion cubic feet ("Bcf"). Gas prices are reported in Euro cents per Kilowatt hour ("Ecents/Kwh") and dollars per thousand cubic feet ("$/Mcf"). Average exchanges rates are based on cumulative royalty transfers

Mobil Agreement	2nd Fiscal Qtr. Ended 4/30/2012	2nd Fiscal Qtr. Ended 4/30/2011	Percentage Change
Gas Sales (Bcf)	9.632	11.057	- 12.89%
Gas Prices (Ecents/Kwh)	2.8708	2.5087	+ 14.43%
Gas Prices ($/Mcf)	$10.74	$10.06	+ 6.76%
Average Exchange Rate	1.3024	1.3962	- 6.72%
Gas Royalties	$4,137,430	$4,447,703	- 6.98%
OEG Agreement			
Gas Sales (Bcf)	26.104	30.098	- 13.27%
Gas Prices (Ecents/Kwh)	3.0872	2.6826	+ 15.08%
Gas Prices ($/Mcf)	$11.24	$10.51	+ 6.95%
Average Exchange Rate	1.3019	1.3989	- 6.93%
Gas Royalties	$1,806,345	$1,959,645	- 7.82%

If we exclude the effects of differences in prices and average exchange rates, the combination of royalty rates on gas sold from western Oldenburg results in an effective royalty rate approximately seven times higher than the royalty rate on gas sold from eastern Oldenburg. This is of particular significance to the Trust since gas sold from western Oldenburg provides the bulk of royalties paid to the Trust. For the quarter just ended, gas sales from western Oldenburg accounted for only 36.9% of all gas sales. However, royalties on these gas sales provided approximately 80.19% of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the second quarter of fiscal 2012 decreased 33.65%, or $96,861, to $190,954 from $287,815 in the second quarter of fiscal 2011. This decline in expenses is primarily due to a difference in the timing of payments of the New York Stock Exchange annual fee and mailing costs associated with the annual meeting, as well as reduced legal expenses. Trust interest income received during the second quarter of fiscal 2012 increased to $11,434 in comparison to $1,301 received in the second quarter of fiscal 2011 due to a shift to money market deposits.

The current Statement of Assets, Liabilities and Trust Corpus of the Trust at April 30, 2012, compared to that at fiscal year-end (October 31, 2011), shows an increase in assets due to the higher royalty receipts during the second quarter of fiscal 2012.

Results: First Six Months of Fiscal 2012 Versus First Six Months of Fiscal 2011

Total royalties received during the first six months of fiscal 2012 were derived from sales of gas, sulfur and oil from the Trust's overriding royalty areas in Germany during the fourth calendar quarter of 2011 and the first calendar quarter of 2012. These royalties were derived primarily from sale of gas from the Trust's overriding royalty areas in Germany. The increase in total royalty income resulted from a minor negative adjustment of approximately $42,000 during the first six months of fiscal 2012 in comparison to significant negative adjustments totaling approximately $981,000 during the first six months of fiscal 2011.

	Six Months Ended 4/30/2012	Six Months Ended 4/30/2011	Percentage Change
Total Royalties Received	$12,979,896	$12,361,791	+ 5.00%
Net Income	$12,341,378	$11,763,133	+ 4.92%
Distributions per Unit	$1.34	$1.28	+ 4.69%

Gas royalty income under both the Mobil and the OEG Agreements in the first six months of fiscal 2012 was lower in comparison to gas royalty income received during the first six months of fiscal 2011 due to the combination of lower gas sales and lower average exchange rates in the first six months of fiscal 2012.

Mobil Agreement	Six Months Ended 4/30/2012	Six Months Ended 4/30/2011	Percentage Change
Gas Sales (Bcf)	19.381	22.763	- 14.86%
Gas Prices (Ecents/Kwh)	2.8635	2.4401	+ 17.35%
Gas Prices ($/Mcf)	$10.70	$ 9.60	+ 11.46%
Average Exchange Rate	1.3020	1.3727	- 5.15%
Gas Royalties	$8,297,163	$8,737,116	- 5.04%
OEG Agreement			
Gas Sales (Bcf)	54.291	60.310	- 9.98%
Gas Prices (Ecents/Kwh)	3.0007	2.6115	+ 14.90%
Gas Prices ($/Mcf)	$10.92	$10.03	+ 8.87%
Average Exchange Rate	1.3023	1.3736	- 5.19%
Gas Royalties	$3,653,970	$3,741,885	- 2.35%

For the six months just ended, gas sales from western Oldenburg accounted for only 35.70% of all gas sales. However, royalties on these gas sales provided approximately 80.04% of all royalties attributable to gas sales from the Oldenburg concession.

Trust expenses for the first six months of fiscal 2012 increased 9.58%, or $57,733, to $660,075 from $602,342 for the first six months of fiscal 2011. This increase in expenses is primarily related to higher legal expenses related to the German litigation, final costs associated with the royalty examination and Trustees' fees calculated as specified under provisions in the Trust Agreement. Trust interest income received during the first six months of fiscal 2012 increased to $21,557 in comparison to $3,684 received in the first six months of fiscal 2011 due to a shift to money market deposits.

Report on Drilling and Geophysical Work

The Trust's German consultant, Alfred Stachel, met with representatives of EMPG to inquire about drilling begun or completed in the 2010-2011 period and planned and proposed drilling and geophysical work for 2012 and beyond, as well as other general matters. The following is a summary of Mr. Stachel's account of the operating companies' responses to his inquiries. The Trust is not able to confirm the accuracy of any of these findings or responses. In addition, EMPG is not obligated to take any of the actions outlined and, if they change their plans with respect to any such actions, they are not obligated to inform the Trust.

EMPG has indicated that it will be conducting scheduled maintenance work at the Grossenkneten desulfurization plant during the period from September 4 to October 11, 2012. It is expected that this will reduce sour gas processing during this period by approximately one-third while the maintenance is being conducted.

The following is a description of wells completed during 2011. Brettorf Z-2b, a sour gas Zechstein well, was intended to re-open the Brettorf gas field, which had been shut-in since 2004. The well underwent a production test at the end of 2011, which showed an unstabilized low flow rate. It is currently shut-in awaiting further considerations on how to proceed. Visbek Z-8a, a western sour gas infill well, completed drilling in December 2011 and entered production in January 2012.

EMPG has provided the following description of work planned for 2012. The operator is continuing to conduct interpretation of previous seismic work to evaluate drilling prospects in different fields in Oldenburg. Goldenstedt Z-21, a sour gas well, began drilling in January 2012 and reached the top of the Zechstein production zone in mid-March. Visbek Z-16a, a western sour gas well, is scheduled to begin drilling in May 2012. The well site for Goldenstedt Z-15, a sour gas well, has been prepared and it is scheduled to begin drilling in August 2012. This well is intended to serve two purposes. It will act as an infill well accessing the Zechstein formation. The well will be further designated as Goldenstedt Z-15a as it will be deepened by an additional 1,000 meters to explore the reservoir conditions in the Carboniferous sweet gas formation. Goldenstedt Z-25, a sour gas well, is scheduled to start drilling in the second half of 2012. Oythe Z-4, a sweet gas well intended to access the Carboniferous formation, is scheduled to start drilling in December 2012. This is the seventh well in EMPG's Tight Gas Program.

Due to the late start of some of these wells, it is possible drilling will continue into 2013. The only well EMPG has currently scheduled for 2013 is Hemmelte NW T-1, a sweet gas well. Construction of the well site has been completed. This is an exploratory well intended to access the Bunter formation in western Oldenburg. Originally intended as a dual well accessing both the Bunter and Zechstein formations, the well was scaled back and a separate well may potentially be drilled in later years to explore the Zechstein formation.

The Trust has been notified by EMPG that there are currently eight wells within EMPG's portfolio, five Zechstein and three Carboniferous, which are planned for some time after 2013. Whether these wells will be drilled is at the discretion of EMPG and will depend upon results of earlier drilling and an evaluation of economic circumstances.

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. ongoing litigation and other 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, 2011.

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 1. Legal Proceedings.

Except as set forth below, the Trust is not a party to any material pending legal proceedings.

The Trust, in conjunction with a parallel royalty holder, periodically engages German accountants to review the methods of calculation of royalties used by EMPG and its affiliates. The accountants' report covering the years 2007-2008 noted that in 2008, NV Nederlandse Gasunie (the state owned Dutch gas distribution company) completed its purchase of the interest held by BEB, an affiliate of EMPG, in the North German gas distribution and transmission pipeline system. Based upon advice of its German counsel, the Trust, along with the parallel royalty holder with a similar royalty agreement, asserted a claim for royalties on the amounts received from such sale. Efforts to resolve the claim were not successful. The parallel royalty holder filed an action in the District Court of Hannover, Germany, Civil Chamber against OEG, an affiliate of BEB. Subsequently, German counsel advised the Trustees that on December 31, 2011 the prescription, or statute of limitations, period for a claim would expire. In face of that pending expiration, and after unsuccessfully seeking a waiver of the statute of limitations, the Trustees, on December 16, 2011, filed an application to join as a party plaintiff to the complaint previously filed by the parallel royalty holder. This joinder application was received by the court on December 19, 2011 and is pending at law as of that date. On January 13, 2012, OEG filed a response to the complaint originally filed by the parallel royalty holder. The Trust and parallel royalty holder's response was filed and a hearing took place on March 14, 2012. In the original proceeding, the Trust sought a royalty on sales proceeds in the amount of Euros 5.66 million. On May 9, 2012, the Trust was notified that the District Court in Hannover had dismissed the Trust's claims. The Trust reviewed the court's judgment and, after consultation with its advisors, has determined that it will not proceed with the litigation. The Trust anticipates that, based on the German Statutory Fee Table, it will be required to pay opposing counsel approximately Euros 44,000.

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. Market risk is negligible because standing instructions at its German bank require the bank to process conversions and transfers of royalty payments as soon as possible following their receipt. The Trust does not engage in any trading activities with respect to possible commodity price fluctuations.

Item 4. Controls and Procedures.

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

The Managing Director has performed an evaluation of the effectiveness of the design and operation of the Trust's disclosure controls and procedures as of April 30, 2012. Based on that evaluation, the Managing Director concluded that the Trust's disclosure controls and procedures were effective as of April 30, 2012.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation described above that occurred during the second quarter of fiscal 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 6. Exhibits.

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

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

SIGNATURE

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

NORTH EUROPEAN OIL ROYALTY TRUST
(Registrant)

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

Dated: May 30, 2012