

MESABI TRUST  
Form 10-Q  
September 07, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2017

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 September 6, 2017, 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 and Six Months Ended July 31, 2017 and 2016

|   | Three Months Ended<br>July 31, |                     | Six Months Ended<br>July 31, |                     |
|---|--------------------------------|---------------------|------------------------------|---------------------|
|   | 2017<br>(unaudited)            | 2016<br>(unaudited) | 2017<br>(unaudited)          | 2016<br>(unaudited) |
| A. Condensed Statements of Operations           |                                |                     |                              |                     |
| Revenues  |                                |                     |                              |                     |
| Royalty income                                  | \$ 13,347,355                  | \$ 2,608,619        | \$ 16,997,566                | \$ 2,608,619        |
| Interest  | 7,273                          | 1,017               | 13,815                       | 2,696               |
| Total revenues                                  | 13,354,628                     | 2,609,636           | 17,011,381                   | 2,611,315           |
| Expenses  |                                |                     |                              |                     |
|   | 240,493                        | 189,389             | 535,539                      | 621,320             |
| Net income                                      | \$ 13,114,135                  | \$ 2,420,247        | \$ 16,475,842                | \$ 1,989,995        |
| WEIGHTED AVERAGE NUMBER OF<br>UNITS OUTSTANDING |                                |                     |                              |                     |
| Number of units outstanding                     | 13,120,010                     | 13,120,010          | 13,120,010                   | 13,120,010          |
| Net income per unit (Note 2)                    | \$ 0.9996                      | \$ 0.1845           | \$ 1.2558                    | \$ 0.1517           |
| Distributions declared per unit (Note 3)        | \$ 0.1600                      | \$ 0.2000           | \$ 0.7100                    | \$ 0.4000           |

See Notes to Condensed Financial Statements.

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Mesabi Trust

Condensed Balance Sheets

July 31, 2017 and January 31, 2017

|   | July 31, 2017<br>(unaudited) | January 31, 2017 |
|---|------------------------------|------------------|
| <b>B. Condensed Balance Sheets</b>  |                              |                  |
| <b>Assets</b>   |                              |                  |
| Cash and cash equivalents   | \$ 10,797,128                | \$ 13,695,168    |
| U.S. Government securities, at amortized cost (which approximates market) | 2,366,816                    | 456,058          |
| Accrued income receivable   | 6,220,864                    | 45,045           |
| Prepaid expenses  | 139,785                      | 53,608           |
| Current assets  | 19,524,593                   | 14,249,879       |
| 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  | \$ 19,524,596                | \$ 14,249,882    |
| <b>Liabilities, Unallocated Reserve And Trust Corpus</b>                  |                              |                  |
| <b>Liabilities</b>  |                              |                  |
| Distribution payable  | \$ 2,099,202                 | \$ 1,836,801     |
| Accrued expenses  | 59,287                       | 108,193          |
| Deferred royalty revenue  | —                            | 2,099,415        |
| Total liabilities   | 2,158,489                    | 4,044,409        |
| Unallocated reserve   | 17,366,104                   | 10,205,470       |
| Trust corpus  | 3                            | 3                |
| Total liabilities, unallocated reserve and trust corpus                   | \$ 19,524,596                | \$ 14,249,882    |

See Notes to Condensed Financial Statements.



## Mesabi Trust

## Condensed Statements of Cash Flows

Six Months Ended July 31, 2017 and 2016

|  | Six Months Ended |              |
|--|------------------|--------------|
|  | July 31,         |              |
|  | 2017             | 2016         |
|  | (unaudited)      | (unaudited)  |
| C. Condensed Statements of Cash Flows                              |                  |              |
| Operating activities   |                  |              |
| Royalties received   | \$ 8,723,576     | \$ 2,030,521 |
| Interest received  | 12,571           | 3,450        |
| Expenses paid  | (670,622)        | (719,935)    |
| Net cash from operating activities                                 | 8,065,525        | 1,314,036    |
| Investing activities   |                  |              |
| Maturities of U.S. Government securities                           | 82,628           | 5,690,347    |
| Purchases of U.S. Government securities                            | (1,993,386)      | —            |
| Net cash (used for) from investing activities                      | (1,910,758)      | 5,690,347    |
| Financing activity   |                  |              |
| Distributions to unitholders                                       | (9,052,807)      | (3,280,003)  |
| Net change in cash and cash equivalents                            | (2,898,040)      | 3,724,380    |
| Cash and cash equivalents, beginning of year                       | 13,695,168       | 2,587,165    |
| Cash and cash equivalents, end of period                           | \$ 10,797,128    | \$ 6,311,545 |
| Reconciliation of net income to net cash from operating activities |                  |              |
| Net income   | \$ 16,475,842    | \$ 1,989,995 |
| Increase in accrued income receivable                              | (6,175,819)      | (516,111)    |
| Increase in prepaid expense  | (86,177)         | (79,607)     |
| Decrease in accrued expenses                                       | (48,906)         | (80,241)     |
| Decrease in deferred royalty revenue                               | (2,099,415)      | —            |
| Net cash from operating activities                                 | \$ 8,065,525     | \$ 1,314,036 |
| Non cash financing activity  |                  |              |
| Distributions declared and payable                                 | \$ 2,099,202     | \$ 2,624,002 |

See Notes to Condensed Financial Statements.

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Mesabi Trust

Notes to Condensed Financial Statements

July 31, 2017 (Unaudited)

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2017) 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 and six months ended July 31, 2017 and 2016, (b) the financial position at July 31, 2017 and (c) the cash flows for the six months ended July 31, 2017 and 2016, 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, 2017.

Note 2. Net income per unit includes accrued income receivable. For the three months ended July 31, 2017, the Trust recorded \$6,220,864 of accrued income receivable as reflected on the Condensed Balance Sheet as of July 31, 2017 (unaudited). Accrued income receivable is accounted for and reported for the Trust's second fiscal quarter based on shipments during the month of July, even though such accrued income receivable is not available for distribution to 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. Net income per unit is based on 13,120,010 units outstanding during the period.

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 July 27, 2017, the Trustees received the quarterly royalty report of iron ore product shipments from Silver Bay, Minnesota during the quarter ended June 30, 2017 from Cleveland-Cliffs Inc., formerly known as Cliffs Natural Resources Inc. (“Cleveland-Cliffs”), the parent company of Northshore Mining Company (“Northshore”). On July 14, 2017, the Trustees declared a distribution of sixteen cents (\$0.16) per Unit of Beneficial Interest payable on August 20, 2017 to Mesabi Trust Unitholders of record at the close of business on July 30, 2017.

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 July 31, 2017 and January 31, 2017, the unallocated cash and U.S. Government securities portion of the Trust’s Unallocated Reserve was comprised of the following components:

|  | July 31, 2017<br>(unaudited) | January 31, 2017  |
|--|------------------------------|-------------------|
| Cash and U.S. Government securities                    | \$ 13,163,944                | \$ 14,151,226     |
| Distribution payable                                   | (2,099,202)                  | (1,836,801)       |
| <br>Unallocated cash and U.S.<br>Government securities | <br>\$ 11,064,742            | <br>\$ 12,314,425 |

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A reconciliation of the Trust's Unallocated Reserve from January 31, 2017 to July 31, 2017 is as follows:

|                                       |               |
|---------------------------------------|---------------|
| Unallocated Reserve, January 31, 2017 | \$ 10,205,470 |
| Net income                            | 16,475,842    |
| Distributions declared                | (9,315,208)   |
| Unallocated Reserve, July 31, 2017    | \$ 17,366,104 |

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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 3 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2017, 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 period ended January 31, 2017 for a full understanding of Mesabi Trust's financial position and results of operations for the three and six month period ended July 31, 2017.

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

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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 \$53.80 per ton for calendar year 2016 and is \$54.74 per ton for calendar year 2017. 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 \$897,008 for calendar year 2016 and is \$912,725 for calendar year 2017. 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 that become available for distribution to Unitholders.

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

## Results of Operations

### Comparison of Iron Ore Pellet Production and Shipments for the Three and Six Months Ended July 31, 2017 and July 31, 2016

As shown in the table below, during the fiscal quarter ended July 31, 2017, production of iron ore pellets at Northshore from Mesabi Trust Lands totaled 1,109,910 tons, and shipments over the same period totaled 2,011,254 tons. By comparison, pellet production and shipments for the comparable period in 2016 was 1,131,450 and 594,264, respectively. The increase in shipments is attributable to the demand from Northshore's customers as compared to the prior comparable period. For the fiscal quarter ended July 31, 2017, approximately 100.0% of shipments from Silver Bay, Minnesota originated from Trust lands.

| Fiscal Quarter Ended | Pellets Produced from Trust Lands (Tons) | Pellets Shipped from Trust Lands (Tons) |
|----------------------|--|---|
| July 31, 2017        | 1,109,910                                | 2,011,254                               |
| July 31, 2016        | 1,131,450                                | 594,264                                 |



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As shown in the table below, during the six months ended July 31, 2017, production of iron ore pellets at Northshore from Mesabi Trust Lands totaled 2,507,857 tons, and shipments over the same period totaled 2,703,430 tons. By comparison, pellet production and shipments for the comparable period in 2016 was 1,131,450 and 594,264, respectively. The increase in production and shipments is attributable to the demand from Northshore's customers as compared to the prior comparable period. For the six months ended July 31, 2017, approximately 100.0% of shipments from Silver Bay, Minnesota originated from Trust lands.

| Six Months Ended | Pellets Produced from<br>Trust Lands<br>(Tons) | Pellets Shipped from<br>Trust Lands<br>(Tons) |
|------------------|--|---|
| July 31, 2017    | 2,507,857                                      | 2,703,430                                     |
| July 31, 2016    | 1,131,450                                      | 594,264                                       |

Comparison of Royalty Income for the Three and Six Months Ended July 31, 2017 and July 31, 2016

As reflected in the table below, the Trust's total royalty income for the fiscal quarter ended July 31, 2017 increased by \$10,738,736 to \$13,347,355 as compared to the fiscal quarter ended July 31, 2016. The increase in total royalty income is due to the increase in shipments during the fiscal quarter ended July 31, 2017, as compared to the fiscal quarter ended July 31, 2016.

The table below shows that the base overriding royalties increased \$5,275,001 and the bonus royalties increased by \$5,492,113 for the fiscal quarter ended July 31, 2017, as compared to the fiscal quarter ended July 31, 2016. Fee royalties decreased by \$28,378 over the same period. The increase in the base overriding royalties is attributable to an increase in demand from Northshore's customers as compared to the prior comparable period. The increase in bonus royalties is attributable to an increase in shipments as compared to the prior comparable period and to anticipated positive pricing adjustments on unconsumed iron ore pellets at January 31, 2017, for the quarter ending July 31, 2017, related to shipments during the calendar year 2016. These price adjustments will not be finalized until after the end of the calendar year in which the pellets are consumed. The decrease in the fee royalty amount is due to a decrease in the amount of iron ore mined under the Peters Lease.

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The table below summarizes the components of Mesabi Trust's total royalty income for the fiscal quarter ended July 31, 2017 and July 31, 2016, respectively:

|   | Three Months Ended July 31, |              |
|---|-----------------------------|--------------|
|   | 2017                        | 2016         |
| Base overriding royalties               | \$ 6,375,979                | \$ 1,100,978 |
| Bonus royalties                         | 6,857,645                   | 1,365,532    |
| Minimum advance royalty paid (recouped) | —                           | —            |
| Fee royalties                           | 113,731                     | 142,109      |
| Total royalty income                    | \$ 13,347,355               | \$ 2,608,619 |

As reflected in the table below, the Trust's total royalty income for the six months ended July 31, 2017 increased by \$14,388,947 to \$16,997,566 as compared to the six months ended July 31, 2016. The increase in total royalty income is due to the increase in shipments during the six months ended July 31, 2017, as compared to the six months ended July 31, 2016.

The table below shows that the base overriding royalties increased \$6,811,197 and the bonus royalties increased by \$7,457,632 for the six months ended July 31, 2017, as compared to the six months ended July 31, 2016. Fee royalties increased by \$120,118 over the same period. The increase in the base overriding royalties is attributable to an increase in demand from Northshore's customers as compared to the prior comparable period. The increase in bonus royalties for the six months ending July 31, 2017, is attributable to an increase in shipments as compared to the prior comparable period and to anticipated positive pricing adjustments on unconsumed iron ore pellets at January 31, 2017, related to shipments during the calendar year 2016. These price adjustments will not be finalized until after the end of the calendar year in which the pellets are consumed. 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 six months ended July 31, 2017 and July 31, 2016, respectively:

|   | Six Months Ended July 31, |              |
|---|---------------------------|--------------|
|   | 2017                      | 2016         |
| Base overriding royalties               | \$ 7,912,175              | \$ 1,100,978 |
| Bonus royalties                         | 8,823,164                 | 1,365,532    |
| Minimum advance royalty paid (recouped) | —                         | —            |
| Fee royalties                           | 262,227                   | 142,109      |
| Total royalty income                    | \$ 16,997,566             | \$ 2,608,619 |

Comparison of Net Income, Expenses and Distributions for the Three and Six Months Ended July 31, 2017 and July 31, 2016

Net income for the fiscal quarter ended July 31, 2017 was \$13,114,135, an increase of \$10,693,888 as compared to the fiscal quarter ended July 31, 2016. The increase in net income for the fiscal quarter ended July 31, 2017 was the result of an increase in demand from Northshore's customers, as compared to the fiscal quarter ended July 31, 2016. The table below summarizes the Trust's income and expenses for the fiscal quarter ended July 31, 2017 and July 31, 2016, respectively.

|                      | Three Months Ended July 31, |              |
|----------------------|-----------------------------|--------------|
|                      | 2017                        | 2016         |
| Total royalty income | \$ 13,347,355               | \$ 2,608,619 |
| Interest income      | 7,273                       | 1,017        |
| Total revenues       | 13,354,628                  | 2,609,636    |
| Expenses             | 240,493                     | 189,389      |
| Net income           | \$ 13,114,135               | \$ 2,420,247 |

Net income for the six months ended July 31, 2017 was \$16,475,842, an increase of \$14,485,847 as compared to the six months ended July 31, 2016. The increase in net income for the six months ended July 31, 2017 was the result of an increase in demand from Northshore's customers, as compared to the six months ended July 31, 2016. The table below summarizes the Trust's income and expenses for the six months ended July 31, 2017 and July 31, 2016, respectively.

|                      | Six Months Ended July 31, |              |
|----------------------|---------------------------|--------------|
|                      | 2017                      | 2016         |
| Total royalty income | \$ 16,997,566             | \$ 2,608,619 |
| Interest income      | 13,815                    | 2,696        |
| Total revenues       | 17,011,381                | 2,611,315    |
| Expenses             | 535,539                   | 621,320      |
| Net income           | \$ 16,475,842             | \$ 1,989,995 |

As presented on the Trust's Condensed Statements of Operations on page 3 of this quarterly report, the Trust's net income per unit increased \$0.8151 per unit to \$0.9996 per unit for the fiscal quarter ended July 31, 2017 as compared to the fiscal quarter ended July 31, 2016. For the six months ended months ended July 31, 2017, the Trust's net income per unit increased \$1.1041 per unit to \$1.2558 per unit, as compared to the prior year period. On July 14, 2017, the Trust declared a distribution of \$0.16 per unit payable on August 20, 2017 to Unitholders of record on July 31, 2017. Comparatively, the Trust declared a distribution of \$0.20 per unit to Unitholders in July 2016. During the six months ended July 31, 2017 and July 31, 2016 the Trust had declared total distributions per unit of \$0.71 and \$0.40, respectively.

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

Comparison of Unallocated Reserve as of July 31, 2017, July 31, 2016 and January 31, 2017

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As set forth in the table below, Unallocated Reserve, which is comprised of accrued income receivable, unallocated cash and U.S. Government securities, deferred royalty revenue, and prepaid expenses and accrued expenses increased from \$5,731,155 as of July 31, 2016 to \$17,366,104 as of July 31, 2017. The increase in Unallocated Reserve as of July 31, 2017, as compared to July 31, 2016, is primarily the result of an increase in the unallocated cash and U.S. Government securities and accrued income receivable portion of the Unallocated Reserve. The increase in the accrued income receivable portion of the Unallocated Reserve is the result of a higher volume of shipments in July 2017 as compared to July 2016. The increase in the unallocated cash and U.S. Government securities is a result of an increase in royalties received for the six months ended July 31, 2017 as compared to the six months ended July 31, 2016, as shown on the statements of cash flows.

|   | July 31, 2017 | July 31, 2016 |
|---|---------------|---------------|
| Accrued Income Receivable                       | \$ 6,220,864  | \$ 1,494,257  |
| Unallocated Cash and U.S. Government Securities | 11,064,742    | 4,193,913     |
| Prepaid Expenses and (Accrued Expenses), net    | 80,498        | 42,985        |
| Unallocated Reserve                             | \$ 17,366,104 | \$ 5,731,155  |

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, 2017.

The Trust's Unallocated Reserve as of July 31, 2017 increased by \$7,160,634 to \$17,366,104, as compared to the fiscal year ended January 31, 2017. The increase in Unallocated Reserve as of July 31, 2017, as compared to January 31, 2017, is primarily the result of an increase in the accrued income receivable portion and a decrease of the deferred royalty revenue portion of the Unallocated Reserve. The increase in the accrued income receivable portion of the Unallocated Reserve is the result of a higher volume of shipments in July 2017 as compared to January 2017. The decrease of deferred royalty revenue is the result of negative pricing adjustments being recognized in the last month of the fiscal year ending January 31, 2017, as compared to anticipated positive pricing adjustments as of July 31, 2017. As of July 31, 2017, the Trust's Unallocated Reserve consisted of \$11,064,742 of unallocated

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cash and U.S. Government securities and \$ 6,220,864 of accrued income receivable. At January 31, 2017, the Trust's Unallocated Reserve consisted of \$12,314,425 in unallocated cash and U.S. Government securities, \$45,045 of accrued income receivable, and deferred royalty revenue of \$2,099,415.

|   | July 31, 2017 | January 31, 2017 |
|---|---------------|------------------|
| Accrued Income Receivable                       | \$ 6,220,864  | \$ 45,045        |
| Unallocated Cash and U.S. Government Securities | 11,064,742    | 12,314,425       |
| Prepaid Expenses and (Accrued Expenses), net    | 80,498        | (54,585)         |
| Deferred Royalty Revenue                        | —             | (2,099,415)      |
| Unallocated Reserve                             | \$ 17,366,104 | \$ 10,205,470    |

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 intended that future distributions will be highly dependent upon royalty income as it is received and the level of Trust expenses. The amount of future royalty income available for distribution will be subject to the volume of iron ore product shipments and the dollar level of sales by Northshore. Shipping activity is greatly reduced during the winter months. Economic conditions, particularly those affecting the 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 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 July 27, 2017, the Trustees received the quarterly royalty report of iron ore product shipments from Silver Bay, Minnesota during the quarter ended June 30, 2017 from Cleveland-Cliffs, the parent company of Northshore.

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 June 30, 2017, Mesabi Trust was credited with a base royalty of \$4,865,382. Mesabi Trust also was credited with a bonus royalty in the amount of \$4,689,548. Royalties paid to Mesabi Trust, however, reflected a reduction of \$1,330,317 as a result of net negative pricing adjustments to

prior royalty calculations related to changes in price estimates made during the last calendar quarter of 2016 and first and second calendar quarters of 2017. Accordingly, the total royalty payments received by Mesabi Trust on July 28, 2017 from Northshore were \$8,356,736 (which includes a royalty payment of \$132,123 payable to the Mesabi Land Trust).

The 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 second calendar quarter of 2017, Northshore credited Mesabi Trust with 1,722,243 tons of iron ore shipped, as compared to 338,385 tons of iron ore shipped during the second calendar quarter of 2016.

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, dependent in part on multiple price 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 received in fiscal year 2018 and prior years continue to reflect pricing estimates for shipments of iron ore products that were subject to 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 July 14, 2017, the Trustees of Mesabi Trust declared a distribution of sixteen cents (\$0.16) per Unit of Beneficial Interest payable on August 20, 2017 to Mesabi Trust Unitholders of record at the close of business on July 30, 2017.

## Cleveland-Cliffs Announcement of First HBI Production Plant in Great Lakes Region

On June 15, 2017, Cleveland-Cliffs Inc. announced that it has selected a site in Toledo, Ohio for the development of its first hot briquetted iron (HBI) production plant. The new plant is expected to have the nominal capacity to produce 1.6 million tons of HBI per year.

According to Cleveland-Cliffs' announcement, the estimated investment in the entire project will be approximately \$700 million, and Cleveland-Cliffs is currently in discussions with several passive financial partners. Cleveland-Cliffs anticipates breaking ground for the construction of the HBI production plant in early 2018, with the production of commercial tonnage of HBI beginning in mid-2020. Cleveland-Cliffs considers the brownfield site at the Port of Toledo a premier location for development due to its relative proximity to several future customers, as well as its logistics advantages, including affordable gas availability and access by multiple rail carriers. The Trustees of Mesabi Trust are unable to predict the impact, if any, which this new HBI production plant would have on iron shipments or resulting royalties payable to the Trust.

## 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 3 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2017, 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.

The Trust did not have any changes in critical accounting policies or in significant accounting estimates during the three months ended July 31, 2017. 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,

2017.

#### 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 2017, 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 July 31, 2017, July 31, 2016 and January 31, 2017" and "Recent Developments—Unallocated Reserve." 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, there has been no change in the Trust's internal control over financial reporting that occurred during the Trust's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust's internal control over financial reporting. The Trustees note for purposes of clarification that they have no authority over, and make no statement concerning, the internal control over financial reporting of Northshore or 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 3 through 10 of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2017.

### 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 July 27, 2017.

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Item 6. Exhibits.

- 31 Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Corporate Trustee of Mesabi Trust pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Report of Baker Tilly Virchow Krause, LLP, dated September 7, 2017 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2017.
- 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 September 7, 2017 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2017.</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

September 7, 2017

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.