

MESABI TRUST  
Form 10-Q  
December 03, 2010

**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 October 31, 2010**

or

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

**For the transition period from                      to**

**Commission File Number: 1-4488**

**MESABI TRUST**

(Exact name of registrant as specified in its charter)

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

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

**c/o Deutsche Bank Trust Company Americas**  
**Trust & Securities Services GDS**  
**60 Wall Street**  
**27th Floor**  
**New York, New York**  
(Address of principal executive offices)

**10005**  
(Zip code)

**(615) 835-2749**

(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 \*

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\* The registrant has not yet been phased into the interactive data requirements.

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:

Large accelerated filer

Accelerated filer

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

As of December 1, 2010, there were 13,120,010 Units of Beneficial Interest in Mesabi Trust outstanding.



## PART I - FINANCIAL INFORMATION

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

## Mesabi Trust

## Condensed Statements of Income

## Three and Nine Months Ended October 31, 2010 and 2009

|  | Three Months Ended<br>October 31, |                     | Nine Months Ended<br>October 31, |                     |
|--|-----------------------------------|---------------------|----------------------------------|---------------------|
|  | 2010<br>(unaudited)               | 2009<br>(unaudited) | 2010<br>(unaudited)              | 2009<br>(unaudited) |
| <b>A. Condensed Statements of Income</b> |                                   |                     |                                  |                     |
| <b>Revenues</b>                          |                                   |                     |                                  |                     |
| Royalty income                           | \$ 11,574,496                     | \$ 5,041,525        | \$ 27,790,642                    | \$ 6,482,372        |
| Interest income                          | 1,817                             | 1,214               | 12,478                           | 8,185               |
|  | 11,576,313                        | 5,042,739           | 27,803,120                       | 6,490,557           |
| <b>Expenses</b>                          |                                   |                     |                                  |                     |
| Expenses                                 | 179,747                           | 141,870             | 612,295                          | 567,629             |
| Net income                               | \$ 11,396,566                     | \$ 4,900,869        | \$ 27,190,825                    | \$ 5,922,928        |
| Number of units outstanding              | 13,120,010                        | 13,120,010          | 13,120,010                       | 13,120,010          |
| Net income per unit (Note 2)             | \$ 0.8686                         | \$ 0.3735           | \$ 2.0725                        | \$ 0.4514           |
| Distributions declared per unit (Note 3) | \$ 0.9100                         | \$ 0.2200           | \$ 1.8350                        | \$ 0.6000           |

See Notes to Condensed Financial Statements.

## Mesabi Trust

## Condensed Balance Sheets

October 31, 2010 and January 31, 2010

|   | October 31, 2010<br>(unaudited) | January 31, 2010 |
|---|---------------------------------|------------------|
| <b>B. Condensed Balance Sheets</b>  |                                 |                  |
| <b>Assets</b>   |                                 |                  |
| Cash and cash equivalents   | \$ 12,211,251                   | \$ 8,444,697     |
| U.S. Government securities, at amortized cost (which approximates market) | 668,888                         | 1,850,515        |
| Accrued income receivable   | 3,320,776                       | 873,938          |
| Prepaid expenses  | 53,637                          | 30,422           |
|   | 16,254,552                      | 11,199,572       |
| Fixed property, including intangibles, at nominal values                  |                                 |                  |
| Amended Assignment of Peters Lease  | 1                               | 1                |
| Assignment of Cloquet Lease   | 1                               | 1                |
| Certificate of beneficial interest for 13,120,010 units of land trust     | 1                               | 1                |
|   | 3                               | 3                |
|   | \$ 16,254,555                   | \$ 11,199,575    |
| <b>Liabilities, Unallocated Reserve and Trust Corpus</b>                  |                                 |                  |
| Liabilities   |                                 |                  |
| Distribution payable  | \$ 11,939,209                   | \$ 7,216,005     |
| Accrued expenses  | 71,905                          | 85,735           |
| Deferred royalty revenue (Note 4)   | 12,011,114                      | 2,770,000        |
|   | 12,011,114                      | 10,071,740       |
| Unallocated Reserve (Note 5)  | 4,243,438                       | 1,127,832        |
| Trust Corpus  | 3                               | 3                |
|   | \$ 16,254,555                   | \$ 11,199,575    |

See Notes to Condensed Financial Statements.

## Mesabi Trust

## Condensed Statements of Cash Flows

Nine Months Ended October 31, 2010 and 2009

|  | Nine Months Ended<br>October 31, |                     |
|--|----------------------------------|---------------------|
|  | 2010<br>(unaudited)              | 2009<br>(unaudited) |
| <b>C. Condensed Statements of Cash Flows</b>                                     |                                  |                     |
| Cash flows from operating activities   |                                  |                     |
| Royalties received   | \$ 22,570,769                    | \$ 9,422,228        |
| Interest received  | 15,513                           | 15,779              |
| Expenses paid  | (649,340)                        | (637,965)           |
| Net cash provided by operating activities  | 21,936,942                       | 8,800,042           |
| Cash flows from investing activities   |                                  |                     |
| Maturities of U.S. Government Securities   | 2,180,000                        | 208,000             |
| Purchases of U.S. Government Securities  | (998,373)                        | (921,193)           |
| Net cash provided by (used for) investing activities                             | 1,181,627                        | (713,193)           |
| Cash flow used for financing activities  |                                  |                     |
| Distributions to Unitholders   | (19,352,015)                     | (6,428,805)         |
| Net change in cash and cash equivalents  | 3,766,554                        | 1,658,044           |
| Cash, beginning of year  | 8,444,697                        | 2,254,107           |
| Cash, end of period  | \$ 12,211,251                    | \$ 3,912,151        |
| <b>Reconciliation of net income to net cash provided by operating activities</b> |                                  |                     |
| Net income   | \$ 27,190,825                    | \$ 5,922,928        |
| (Increase) decrease in accrued income receivable                                 | (2,446,838)                      | 697,450             |
| Increase in prepaid expenses   | (23,215)                         | (23,214)            |
| Decrease in accrued expenses   | (13,830)                         | (47,122)            |
| (Decrease) Increase in deferred royalty revenue                                  | (2,770,000)                      | 2,250,000           |
| Net cash provided by operating activities  | \$ 21,936,942                    | \$ 8,800,042        |

See Notes to Condensed Financial Statements.

MESABI TRUST

NOTES TO CONDENSED FINANCIAL STATEMENTS

October 31, 2010 (Unaudited)

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2010) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Trustees, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the results of operations for the three months and nine months ended October 31, 2010 and 2009, (b) the financial position at October 31, 2010 and (c) the cash flows for the nine months ended October 31, 2010 and 2009, 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, 2010.

Note 2. Net income per unit includes accrued income receivable. As of October 31, 2010, the Trust recorded \$3,320,776 of accrued income receivable as reflected on the Condensed Balance Sheet. Accrued income receivable includes accruals for anticipated positive pricing adjustments and shipments during the month of October. Accrued income receivable is accounted for and reported for the Trust's third fiscal quarter even though such accrued income receivable is not available for distribution to Unitholders until it is actually received by the Trust. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company (Northshore) as to the amount of royalty that is expected to be paid to the Trust based on shipments through the end of each calendar quarter. The Trust's financial statements are prepared on an accrual basis and present the Trust's results of operations based on each fiscal quarter which ends one month after the close of each calendar quarter. Because distributions are declared based on the royalty payment that is payable as of the end of each calendar quarter and the Trust's Net Income is calculated as of the end of each fiscal quarter, the distributions declared by the Trust are not equivalent to the Trust's Net Income during the periods reported in this quarterly report on Form 10-Q.

Note 4. As previously reported, in April 2009, the Trust received its quarterly distribution payment from Northshore of approximately \$5,200,000. In accordance with the Trust's revenue recognition policy, the Trust recognized revenue related to tons of iron ore that were shipped by Northshore, but for which Northshore had indicated that final pricing was not yet known. As a result of decreases in estimated pellet pricing subsequent to January 31, 2009, the cash proceeds received by the Trust in April 2009 exceeded the royalty revenue recognized by the Trust in fiscal 2010. Accordingly, the Trust had estimated a \$2,770,000 liability in the form of deferred royalty revenue based on pricing estimates provided by Northshore as of January 31, 2010.

In April 2010, the Trust received customary quarterly payment notification from Northshore, which indicated that the Trust was credited with a royalty payment of approximately \$1.9 million. However, because of declines in the price adjustment mechanisms under the Cliffs Pellet Agreements, Northshore applied a \$2.8 million negative price adjustment with respect to shipments and sales by Northshore based on estimated pellet pricing. These negative pricing adjustments, the corresponding offset against the quarterly royalty payment and an increase in



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estimated pellet pricing subsequent to January 31, 2010, reduced the Trust's deferred royalty revenue liability from \$2,770,000 as of January 31, 2010 to \$972,000 as of April 30, 2010.

In July 2010, the Trust received a quarterly royalty payment notification from Northshore, which indicated that the Trust was credited a royalty payment of approximately \$10.024 million. The amount of the royalty payment was reduced by the application of \$1.068 million of negative price adjustments with respect to shipments and sales by Northshore based on estimated pellet pricing. These negative pricing adjustments, the corresponding offset against the quarterly royalty payment made in the second fiscal quarter of 2010 and an increase in estimated pellet pricing subsequent to January 31, 2010, together reduced the Trust's deferred royalty revenue liability from \$2,770,000 as of January 31, 2010 to \$0 as of October 31, 2010. Pricing estimates are adjusted on a quarterly basis as updated pricing information is received from Northshore. To the extent that the Trust has recorded a deferred royalty revenue liability, it is anticipated that such amounts would be carried forward to subsequent quarters until there are sufficient positive royalty payments and/or future positive price adjustments to fully offset any negative price adjustments.

**Note 5.** The Trustees have determined that the unallocated cash and U.S. Government securities portion of the Unallocated Reserve should be maintained at a prudent level, usually within the range of \$500,000 to \$1,000,000, to meet present or future liabilities of the Trust. Accordingly, although the actual amount of the Unallocated Reserve will fluctuate from time to time, and may increase or decrease from its current level, it is currently intended that future distributions will be highly dependent upon royalty payments received quarterly and the level of Trust expenses that the Trustees anticipate the Trust will incur in subsequent quarters.

As of October 31, 2010, the Unallocated Reserve consisted of \$922,662 in unallocated cash and U.S. Government securities and \$3,320,776 of accrued income receivable primarily representing royalties not yet received by the Trust but anticipated to be received in future periods. Pursuant to the Agreement of Trust, the Trust makes decisions on cash distributions to Unitholders primarily based on the royalty payments actually received from Northshore after considering any historical and potential future pricing adjustments, 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 October 31, 2010 and January 31, 2010, the Trust's Unallocated Reserve was comprised of the following components:

|                                     | <b>October 31,<br/>2010<br/>(unaudited)</b> | <b>January 31, 2010<br/>(audited)</b> |
|-------------------------------------|---|---------------------------------------|
| Cash and U.S. Government securities | \$ 922,662                                  | \$ 3,023,894                          |
| Accrued income receivable           | 3,320,776                                   | 873,938                               |
| Deferred royalty revenue            |   | (2,770,000)                           |
| <b>Unallocated Reserve</b>          | <b>\$ 4,243,438</b>                         | <b>\$ 1,127,832</b>                   |

A reconciliation of the Trust's Unallocated Reserve from January 31, 2010 to October 31, 2010 is as follows:

|  |                     |
|--|---------------------|
| Unallocated Reserve, January 31, 2010        | \$ 1,127,832        |
| Net income                                   | 27,190,825          |
| Distributions declared                       | (24,075,219)        |
| <b>Unallocated Reserve, October 31, 2010</b> | <b>\$ 4,243,438</b> |



**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 and Section 27A of the Securities Act of 1933. All such forward-looking statements, including those statements estimating 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 volatility of iron ore and steel prices, product 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 in Part I Item 1A of Mesabi Trust's Annual Report on Form 10-K for the year ended January 31, 2010, 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 Form 10-Q and the financial statements and notes in the last filed Annual Report on Form 10-K filed for the period ending January 31, 2010 for a full understanding of Mesabi Trust's financial position and results of operations for the nine month period ended October 31, 2010.

**Background**

Mesabi Trust ( Mesabi Trust or the Trust ), formed pursuant to an Agreement of Trust dated July 18, 1961 (the Agreement of Trust ), is a trust organized under the laws of the State of New York. Mesabi Trust holds all of the interests formerly owned by Mesabi Iron Company ( MIC ), including all right, title and interest in the Amendment of Assignment, Assumption and Further Assignment of Peters Lease (the Amended Assignment of Peters Lease ), the Amendment of Assignment, Assumption and Further Assignment of Cloquet Lease (the Amended Assignment of Cloquet Lease and together with the Amended Assignment of Peters Lease, the Amended Assignment Agreements ), the beneficial interest in the Mesabi Land Trust (as such term is defined below) 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



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for the preservation and protection of the Trust Estate. Accordingly, the Trustees' activities in connection with the administration of Trust assets are limited to collecting income, paying expenses and liabilities, distributing net income to the holders of Certificates of Beneficial Interest in Mesabi Trust ( Unitholders ) after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the assets held.

The Trustees do not intend to expand their responsibilities beyond those permitted or required by the Agreement of Trust, the Amendment to the Agreement of Trust dated October 25, 1982 (the Amendment ), and those required under applicable law. Mesabi Trust has no employees, but it engages independent consultants to assist the Trustees in, among other things, monitoring the volume and sales prices of iron ore products shipped from Silver Bay, Minnesota, based on information supplied to the Trustees by Northshore Mining Company ( Northshore ), the lessee/operator of the Mesabi Trust lands, and its parent company Cliffs Natural Resources Inc. ( Cliffs ). References to Northshore in this quarterly report, unless the context requires otherwise, are applicable to Cliffs as well.

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

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

- **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 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 price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.
- **Royalty bonuses.** The Trust earns royalty bonuses when iron ore products shipped from Silver Bay are sold at prices above a threshold price per ton. The royalty bonus is based on a percentage of the gross proceeds of product shipped from Silver Bay and sold at prices above a threshold price. The threshold price is adjusted (but not below \$30.00 per ton) on an annual basis for inflation and deflation (the Adjusted Threshold Price ). The Adjusted Threshold Price was \$48.48 per ton for calendar year 2009 and is \$48.81 per ton for calendar year 2010. The royalty bonus percentage ranges from 1/2 of 1% of the gross proceeds (on all tonnage shipped for sale at prices between the Adjusted Threshold Price and \$2.00 above the Adjusted Threshold Price) to 3% of the gross proceeds (on all tonnage shipped for sale at prices \$10.00 or more above the Adjusted Threshold Price). Royalty bonuses are subject to price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.
- **Fee royalties.** Fee royalties have historically constituted a smaller component of the Trust's total royalty income. Fee royalties are payable to the Mesabi Land Trust, a Minnesota land trust, which holds a 20% interest as fee owner in the Amended Assignment of Peters Lease. Mesabi Trust holds the entire beneficial interest in the Mesabi Land Trust for which U.S. Bank N.A. acts as the corporate trustee. Mesabi Trust receives the net income of the Mesabi Land Trust, which is generated from royalties on the amount of crude ore mined after the payment of expenses to U.S. Bank N.A. for its services as corporate trustee. Crude ore is the source of iron oxides used to make iron ore



pellets and other products. The fee royalty on crude ore is based on an agreed price per ton, subject to certain indexing.

- Minimum advance royalties. Northshore's obligation to pay base overriding royalties and royalty bonuses with respect to the sale of iron ore products generally accrues upon the shipment of those products from Silver Bay. However, regardless of whether any shipment has occurred, under the terms of the Amended Assignment Agreements, Northshore is obligated to pay to 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 in accordance with the Amended Assignment Agreements. The minimum advance royalty was \$808,177 for calendar year 2009 and is \$813,729 for calendar year 2010. Until overriding royalties (and royalty bonuses, if any) for a particular year equal or exceed the minimum advance royalty for the year, Northshore must make quarterly payments of up to 25% of the minimum advance royalty for the year. Because minimum advance royalties are essentially prepayments of base overriding royalties and royalty bonuses earned each year, any minimum advance royalties paid in a fiscal quarter are recouped by credits against base overriding royalties and royalty bonuses earned in later fiscal quarters during the year.

Under the relevant documents, Northshore may mine and ship iron ore products from lands other than Mesabi Trust lands. Northshore is obligated to make quarterly royalty payments in January, April, July and October of each year based on shipments of iron ore products from Silver Bay, Minnesota during each calendar quarter. In the case of base overriding royalties and royalty bonuses, these quarterly royalty payments are to be made whether or not the related proceeds of sale have been received by Northshore by the time such payments become due. Northshore alone determines whether to mine off Trust and/or such other lands, based on its current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions. To encourage the mining of iron ore products from Mesabi Trust lands, Mesabi Trust receives royalties on stated percentages of iron ore shipped from Silver Bay, whether or not the iron ore products that are shipped are actually mined from Mesabi Trust lands. Mesabi Trust receives royalties based on the greater of following two methods of calculating royalty payments (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, and (ii) a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons.

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 Nine Months Ended October 31, 2010 and October 31, 2009**

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the fiscal quarter ended October 31, 2010 totaled approximately 1,257,479 tons, and actual shipments over the same period totaled approximately 1,702,938 tons. By comparison, actual pellet production and actual shipments for the comparable period in 2009 were approximately 1,122,020 tons and 1,307,915 tons, respectively. The increase in production and shipments at Northshore are the result of an increase in orders from Cliffs' customers.

| Fiscal Quarter Ended | Pellets Produced from<br>Trust Lands<br>(tons) | Pellets Shipped from Trust<br>Lands<br>(tons) |
|----------------------|--|---|
| October 31, 2010     | 1,257,479                                      | 1,702,938                                     |
| October 31, 2009     | 1,122,020                                      | 1,307,915                                     |

As shown in the table below, during the nine months ended October 31, 2010, production of iron ore pellets at Northshore from Mesabi Trust lands totaled approximately 3,508,519 tons, and actual shipments over the same period totaled approximately 4,721,032 tons. By comparison, actual pellet production and actual shipments for the comparable period in 2009 were approximately 2,082,085 tons and 1,823,812 tons, respectively. The increase in production and shipments at Northshore for the nine months ended October 31, 2010 is the result of a significant increase in orders from Cliffs' customers.

| Nine Months Ended | Pellets Produced from<br>Trust Lands<br>(tons) | Pellets Shipped from Trust<br>Lands<br>(tons) |
|-------------------|--|---|
| October 31, 2010  | 3,508,519                                      | 4,721,032                                     |
| October 31, 2009  | 2,082,085                                      | 1,823,812                                     |

**Comparison of Royalty Income for the Three and Nine Months Ended October 31, 2010 and October 31, 2009**

Total royalty income for the quarter increased \$6,532,971 over the comparable prior period. The increase in total royalty income is due to higher sales prices per ton of iron ore pellets sold and an increase in the total volume of iron ore pellets shipped during the three months ended October 31, 2010, each as compared to the three months ended October 31, 2009. The higher sales prices per ton and the increase in the volume of iron ore pellets shipped both contributed to an increase in the base overriding royalty and the bonus royalty payments.

The table below shows that the base overriding royalties, the bonus royalties, and the fee royalties increased by \$5,092,859, \$1,413,722, and \$26,390 respectively, for the three months ended October 31, 2010. The increases in the base overriding royalties and the bonus royalties are both attributable to the higher sales prices per ton of iron ore pellets and the increase in the volume of tons shipped during the three months ended October 31, 2010, each as compared to the three months ended October 31, 2009.

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The table below summarizes the components of Mesabi Trust's royalty income for the three months ended October 31, 2010 and October 31, 2009.

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|   | <b>Three Months Ended October 31,</b> |              |
|---|---------------------------------------|--------------|
|   | <b>2010</b>                           | <b>2009</b>  |
| Base overriding royalties               | \$ 7,721,172                          | \$ 2,628,313 |
| Bonus royalties                         | 3,721,330                             | 2,307,608    |
| Minimum advance royalty paid (recouped) |                                       |              |
| Fee royalties                           | 131,994                               | 105,604      |
| Total royalty income                    | \$ 11,574,496                         | \$ 5,041,525 |

The Trust's total royalty income for the nine months ended October 31, 2010 increased \$21,308,270 as compared to the nine months ended October 31, 2009. The increase is the result of higher realized sales prices per ton of iron ore pellets and a 159% increase in the total volume of iron ore pellets shipped during the nine months ended October 31, 2010, each as compared to the nine months ended October 31, 2009. The higher sales prices per ton and the increase in the volume of iron ore pellets shipped both contributed to an increase in the base overriding royalty and the bonus royalty payments.

The table below shows that the base overriding royalties, the bonus royalties, and the fee royalties increased \$13,501,318, \$7,624,321 and \$182,631 respectively, for the nine months ended October 31, 2010, from the comparable period in 2009. The increases in the base overriding royalties and the bonus royalties are both attributable to the higher sales prices per ton of iron ore pellets and the increase in the volume of tons shipped during the nine months ended October 31, 2010, each as compared to the nine months ended October 31, 2009.

The table below summarizes the components of Mesabi Trust's royalty income for the nine months ended October 31, 2010 and October 31, 2009.

|   | <b>Nine Months Ended October 31,</b> |              |
|---|--------------------------------------|--------------|
|   | <b>2010</b>                          | <b>2009</b>  |
| Base overriding royalties               | \$ 16,758,987                        | \$ 3,257,669 |
| Bonus royalties                         | 10,656,599                           | 3,032,278    |
| Minimum advance royalty paid (recouped) |                                      |              |
| Fee royalties                           | 375,056                              | 192,425      |
| Total royalty income                    | \$ 27,790,642                        | \$ 6,482,372 |

**Comparison of Net Income, Expenses and Distributions for the Three and Nine Months Ended October 31, 2010 and October 31, 2009**

Net income for the three months ended October 31, 2010 was \$11,396,566, an increase of \$6,495,697 compared to the three months ended October 31, 2009. As with the increase in total royalty income, the increase in net income for the quarter ended October 31, 2010 was the result of higher sales prices per ton of iron ore pellets shipped and an increase in the volume of tons shipped. The Trust's expenses increased \$37,877 for the three months ended October 31, 2010, as compared to the three month period ended October 31, 2009, as a result of higher expenses incurred in connection with the administration of the Trust primarily related to compliance with the SEC's XBRL filing mandate and the recently enacted Dodd-Frank Act. The table below summarizes the Trust's income and expenses for the three months ended October 31, 2010 and October 31, 2009.

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|                      | <b>Three Months Ended October 31,</b> |              |
|----------------------|---------------------------------------|--------------|
|                      | <b>2010</b>                           | <b>2009</b>  |
| Total royalty income | \$ 11,574,496                         | \$ 5,041,525 |
| Interest income      | 1,817                                 | 1,214        |
| Gross income         | 11,576,313                            | 5,042,739    |
| Expenses             | 179,747                               | 141,870      |
| Net income           | \$ 11,396,566                         | \$ 4,900,869 |

Net income for the nine months ended October 31, 2010 was \$27,190,825, an increase of \$21,267,897 as compared to the nine months ended October 31, 2009. As with the increase in total royalty income, the increase in net income for the nine months ended October 31, 2010 was the result of higher sales prices per ton of iron ore pellets shipped and an increase in the volume of tons shipped. The Trust's expenses increased \$44,666 for the nine months ended October 31, 2010, as compared to the nine months ended October 31, 2009, as a result of higher expenses incurred in connection with the administration of the Trust primarily related to compliance with the SEC's XBRL filing mandate and the recently enacted Dodd-Frank Act. The table below summarizes the Trust's income and expenses for the nine months ended October 31, 2010 and October 31, 2009.

|                      | <b>Nine Months Ended October 31,</b> |              |
|----------------------|--------------------------------------|--------------|
|                      | <b>2010</b>                          | <b>2009</b>  |
| Total royalty income | \$ 27,790,642                        | \$ 6,482,372 |
| Interest income      | 12,478                               | 8,185        |
| Gross income         | 27,803,120                           | 6,490,557    |
| Expenses             | 612,295                              | 567,629      |
| Net income           | \$ 27,190,825                        | \$ 5,922,928 |

As presented on the Trust's Condensed Statements of Income on page 2 of this quarterly report, the Trust's net income per unit increased \$0.4951 per unit to \$0.8686 per unit for the three months ended October 31, 2010 as compared to October 31, 2009. For the nine months ended October 31, 2010, the Trust's net income per unit increased \$1.621 per unit to \$2.0725 per unit, as compared to the prior year period. On October 15, 2010, the Trust declared a distribution of \$0.91 per unit payable to Unitholders of record on October 30, 2010. Comparatively, the Trust declared a distribution of \$0.22 per unit in October 2009. During the nine months ended October 31, 2010 and October 31, 2009, the Trust had declared total distributions per unit of \$1.835 and \$0.60, respectively.

Distributions, if any, are declared after receiving notification from Northshore Mining Company 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 the Trust's fiscal quarter (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). 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 October 31, 2010, October 31, 2009 and January 31, 2010**

As set forth in the table below, the Trust's Unallocated Reserve, which is comprised of accrued income receivable, cash reserve for potential fixed or contingent future liabilities and deferred royalty revenue, increased from \$1,843,102 as of October 31, 2009 to \$4,243,438 as of October 31, 2010. The increase in Unallocated Reserve as of October 31, 2010, as compared to October 31, 2009, is the result of an increase of approximately \$1,296,249 of accrued income receivable, which resulted from an increase in shipments during October 2010 as compared to shipments during October 2009. Additionally, the Trust's deferred royalty revenue liability, which was (\$2,250,000) as of October 31, 2009, has been eliminated due to Northshore's offsetting of negative pricing adjustments against the Trust's quarterly royalty payments received during 2010. The Trust's cash reserve for potential fixed or contingent future liabilities decreased from \$2,068,574 as of October 31, 2009 to \$922,662 as of October 31, 2010. The decrease in the cash reserve for potential fixed or contingent future liabilities is due to the Trustee's decision to use a portion of the cash reserve to pay distributions to Unitholders during the nine months ended October 31, 2010, as the Trust's deferred royalty revenue liability was reduced and then eliminated.

|                               | October 31, 2010 |    | October 31, 2009 |
|-------------------------------|------------------|----|------------------|
| Accrued Income Receivable     | \$ 3,320,776     | \$ | 2,024,528        |
| Deferred Royalty Revenue      |                  |    | (2,250,000)      |
| Cash Reserve                  | 922,662          |    | 2,068,574        |
| Unallocated Reserve (Deficit) | \$ 4,243,438     | \$ | 1,843,102        |

As stated in the preceding paragraph, the remaining balance of the Trust's deferred royalty revenue was eliminated during the second fiscal quarter of 2010, as Northshore offset \$1,068,000 of royalty payments. Although the Trust does not currently have any deferred revenue liability, it is possible that future negative price adjustments could offset, or even eliminate, 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, 2010, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

The Trust's Unallocated Reserve as of October 31, 2010 increased \$3,115,606 as compared to the fiscal year ended January 31, 2010. The increase in the Unallocated Reserve is due to the decrease in deferred royalty revenue and an increase in accrued income receivable due to the increased shipments from Northshore during the month of October 2010, offset by a decrease in the cash reserve portion of the Unallocated Reserve. At January 31, 2010, the Unallocated Reserve consisted of \$3,023,894 in unallocated cash and U.S. Government securities, \$873,938 of accrued income receivable, primarily representing royalties not yet received by the Trust but anticipated to be received in fiscal 2011, less deferred royalty revenue of (\$2,770,000).

The Trustees have determined that the unallocated cash and U.S. Government securities portion of the Unallocated Reserve should be maintained at a prudent level, usually within the range of \$500,000 to \$1,000,000, to meet present or future liabilities of the Trust. The actual amount of the Unallocated Reserve will fluctuate from time to time and may increase or decrease from its current level. Future distributions will be highly dependent upon royalty income as it is received, changes in estimated pricing, potential for future price adjustments 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 and economic conditions, particularly those affecting the steel industry, may adversely affect the amount and timing of such future shipments and sales. The Trustees will continue to monitor the economic and other circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain a reserve for unexpected loss contingencies at a prudent level, given the unpredictable

nature of the iron ore industry, the Trust's dependence on the actions of the lessee/operator, and the fact that the Trust essentially has no other liquid assets.

## Recent Developments

**Production and Shipments.** In its Form 10-Q filed October 29, 2010, Cliffs reported that Northshore was operating three of its four furnaces during the first nine months of calendar year 2010 with the fourth restarted in September 2010. In its Form 10-Q, Cliffs did not separately report the amount of iron ore produced at Northshore for the three months ended September 30, 2010. Northshore has not provided the Trustees with an estimate of total expected shipments of iron ore pellets for calendar year 2010. See the description of the uncertainty of market conditions in the iron ore and steel industry under Important Factors Affecting Mesabi Trust below and the information under the heading Risk Factors in Part I Item 1A of the Trust's Annual Report on Form 10-K for the year-ended January 31, 2010, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

**Arbitration between Cliffs and ArcelorMittal.** In its Form 10-Q filed October 29, 2010, Cliffs provided an update to the matters previously reported regarding Cliffs' arbitration with its customer ArcelorMittal. As previously reported, Northshore, along with The Cleveland-Cliffs Iron Company, Cliffs Mining Company and Cliffs Sales Company, filed two arbitration demands against ArcelorMittal USA Inc., ISG Cleveland Inc., ISG Indiana Harbor Inc. and Mittal Steel USA Weirton Inc. (collectively, ArcelorMittal) related to attempts by ArcelorMittal to revise the nomination of ArcelorMittal's pellet requirements and a corresponding shipping schedule for 2009 and to reverse an election to defer certain tonnage for 2009. Cliffs reported that these two arbitration demands were settled on April 14, 2010. Under the settlement, Cliffs reached an agreement with ArcelorMittal as to the final nomination for 2009 and the binding nomination for 2010. Cliffs also reported that on June 7, 2010, ArcelorMittal filed a complaint in the Circuit Court of Cook County, Illinois seeking a declaratory judgment that Cliffs must permit it to change the amounts and types of pellets to be shipped to its Indiana Harbor East facility in 2010 from the amounts and types set forth in the settlement agreement as part of ArcelorMittal's 2010 nomination. Cliffs also reported that on June 25, 2010, it filed a motion to stay the case and to compel arbitration and on July 9, 2010, Cliffs filed an amended demand seeking a declaration that Cliffs is entitled to a price reopener for 2010. In its Form 10-Q filed October 29, 2010, Cliffs reported that ArcelorMittal dismissed the Cook County lawsuit and commenced arbitration for which Cliffs filed an answering statement on September 10, 2010.

The Trustees are unable to predict what impact, if any, the proceedings between Cliffs and ArcelorMittal described above will have on shipments from Northshore or future royalties payable to the Trust. However, the royalties received by the Trust could be affected, negatively or positively, to the extent such proceedings result in a negative or positive pricing adjustment for iron ore shipped from Trust lands. The Trustees have not been informed what portion, if any, of the iron ore tonnage subject to these proceedings was shipped from Trust lands.

**Arbitration and Application between Cliffs and Essar Algoma Steel.** In its Form 10-Q filed October 29, 2010, Cliffs reported that Essar Algoma Steel (Essar) filed an Application for Emergency Relief in the Ontario Superior Court of Justice in Ontario, Canada requesting that the court order Northshore, The Cleveland-Cliffs Iron Company and Cliffs Mining Company to ship pellets to an Essar facility in Sault Ste. Marie, Ontario pursuant to a Pellet Sale and Purchase Agreement dated January 31, 2002. According to Cliffs, Essar disputed a mid-year adjustment to the price it pays for pellets under that agreement leading Cliffs to suspend performance due to Essar's failure to pay amounts due to Cliffs. According to Cliffs, the court granted the application and ordered Cliffs to resume shipping pellets at the December 2009 price though this injunction expired on October 1, 2010, following an agreement between the parties on an interim price to be paid by Essar pending the outcome of a related arbitration.

Cliffs also reported that simultaneously with the Application for Emergency Relief, Essar filed an arbitration demand pursuant to the agreement requesting that the arbitration panel determine a price



adjustment and declare the May 2010 adjustment by Cliffs invalid and ineffective. Cliffs reported that it filed an answer and counterclaim on June 18, 2010 and an amended answer and counterclaim in the arbitration on July 16, 2010. Cliffs reported that the amended counterclaim asserts that published annual prices used to adjust the price of the pellets sold to Essar under the agreement have ceased to be published and asks the arbitration panel to either amend the agreement in this regard or require Essar to enter into negotiations with Cliffs to amend the agreement.

The Trustees are unable to predict what impact, if any, the proceedings between Cliffs and Essar described above will have on shipments from Northshore or future royalties payable to the Trust. However, the royalties received by the Trust could be affected, negatively or positively, to the extent such proceedings result in a negative or positive pricing adjustment for iron ore shipped from Trust lands. The Trustees have not been informed what portion, if any, of the iron ore tonnage subject to these proceedings was shipped from Trust lands.

### **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 assets held.

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

In accordance with the Agreement of Trust and the Amendment, the Trustees are entitled to, and in fact do, rely upon certain experts in good faith, including (i) the independent consultants with respect to monthly production and shipment reports, which include figures on crude ore production and iron ore pellet shipments, and discussions concerning the condition and accuracy of the scales and plans regarding the development of Mesabi Trust's mining property; and (ii) the accounting firm they have contracted with for non-audit services, including reviews of financial data related to shipping and sales reports provided by Northshore and a review of the schedule of leasehold royalties payable to Mesabi Trust.

For a discussion of additional factors, including but not limited to those that could adversely affect Mesabi Trust's actual results and performance, see "Risk Factors" in Part I Item 1A of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2010, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.



### **Iron Ore Pricing and Contract Adjustments**

During the course of its fiscal year some portion of the royalties paid to Mesabi Trust are based on estimated prices for iron ore products sold under term contracts between Cliffs and its subsidiaries and certain of their customers (the Cliffs Pellet Agreements). Mesabi Trust is not a party to any of the Cliffs Pellet Agreements. These prices are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on a variety of price and inflation index factors, including but not limited to the international benchmark pellet price, hot band steel prices and various Producer Price Indexes. Although Northshore makes interim adjustments to the royalty payments on a quarterly basis, these price adjustments cannot be finalized until after the end of a contract year. This may result in significant and frequent variations in royalties received by Mesabi Trust (and in turn the resulting amount of funds available for distribution to Unitholders by the Trust) from quarter to quarter and on a comparative historical basis, and these variations, which can be positive or negative, cannot be predicted by Mesabi Trust. It is possible that future negative price adjustments could partially or even completely offset royalties or royalty income that would otherwise be payable to the Trust in any particular quarter, or at year-end, thereby potentially reducing cash available for distribution to the Trust's Unitholders in future quarters.

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 in Part I Item 1A of Mesabi Trust's Annual Report on Form 10-K for the year-ended January 31, 2010, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

### **Effects of Securities Regulation**

The Trust is a publicly-traded trust 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) 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 publicly-traded trusts such as Mesabi Trust. In particular, Sarbanes-Oxley mandated the adoption by the Securities and Exchange Commission (the SEC) 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 currently in effect, the Trust is exempt from many of the corporate governance requirements that apply to 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 or a compensation committee. The Trustees intend to closely monitor the SEC's and the NYSE's rulemaking activity and will attempt to comply with such rules and regulations where applicable.

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

### **Critical Accounting Policies**

This Trustees' Discussion and Analysis of Financial Condition and Results of Operations is based upon the Trust's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Trustees to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are those that have meaningful impact on the reporting of the Trust's financial condition and results, and that require significant judgment and estimates. During the preparation of financial statements, the Trust makes estimates, assumptions and judgments that affect reported amounts. These estimates, assumptions and judgments include those related to revenue recognition and accrued expenses. The Trust bases its estimates on various assumptions and historical experience, which are

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believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. On a regular basis, the Trust reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States. However, because future events and their effects cannot be determined with certainty, actual results could differ from assumptions and estimates, and such differences could be material.

The Trust did not have any changes in critical accounting policies or in significant accounting estimates during the three months ended October 31, 2010. 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, 2010.

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

Not applicable.

**Item 4. Controls and Procedures.**

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

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

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

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

**PART II - OTHER INFORMATION**

**Item 1A. Risk Factors**

The information presented below amends, updates and should be read in conjunction with the risk factors and information disclosed here and in the Trust's Annual Report on Form 10-K for the fiscal year ended January 31, 2010. The risk factors disclosed here and in the Trust's Annual Report on Form 10-K for the fiscal year ended January 31, 2010, in addition to the other information set forth in this quarterly report, could have a material adverse effect on the royalties received by Mesabi Trust. You should carefully consider such risks in addition to other information contained in this report before engaging in any transaction involving units of beneficial interest of Mesabi Trust. Additional risks and uncertainties not currently known to the Trust or that have been deemed to be immaterial as of the filing of this Quarterly Report could also materially adversely affect the Trust's results of operations.

The Trust's risk factors are hereby updated as follows:

*The stability of Cliffs' North American iron ore operations and the price adjustment provisions in the North American iron ore supply agreements with Cliffs' customers could have a significant effect on the amounts available for distribution to the Trust's Unitholders.*

In Cliffs' Form 10-K filed February 18, 2010, Cliffs reported that in 2009 five customers together accounted for more than 80 percent of its North American iron ore sales revenues. According to the Form 10-K filed by Cliffs, sales volume under these agreements is largely dependent on customer requirements, and in some cases, Cliffs is the sole supplier of iron ore pellets to its customers. In its Form 10-Q filed October 29, 2010, Cliffs reported that in 2010 virtually all of its North American iron ore sales volume will be sold under term supply agreements to a limited number of customers. Contractual disputes with any of Cliffs' significant customers or failure to renew or replace such agreements with similar agreements could result in lower sales volume and lower sales prices, which could adversely affect the royalties received by the Trust.

Cliffs has also reported that its North American term supply agreements contain a number of adjustment provisions, including adjustments based on general industrial inflation rates, the price of steel and the international price of iron ore pellets, among other factors, that allow Cliffs to adjust the prices under those agreements generally on an interim and annual basis. These market prices are dependent upon supply and demand relationships and a variety of other factors over which the Trust has no control. Cliffs' price adjustment provisions are weighted and some are subject to annual collars, which limit Cliffs' ability to raise prices to match international levels and fully capitalize on strong demand for iron ore.

Additionally, Cliffs has reported that during the first quarter of 2010, the world's largest iron ore producers began to move away from the annual international benchmark pricing mechanism in favor of a shorter-term, more flexible pricing system. According to the most recent Form 10-Q filed by Cliffs, in addition to increased volatility of pricing, the change in the international pricing system will, in most instances, require that Cliffs' sales contracts be modified to take into account the new international pricing methodology. Cliffs reports that it has reached final pricing settlement with the majority of its North American iron ore customers. However, negotiations with certain of its largest North American iron ore customers are still ongoing and some of Cliffs' customers have filed arbitration demands related to the price adjustment provisions of their supply agreements. Cliffs has not reported their assessment of the impact a change to the historical annual pricing mechanism will have on their existing supply agreements with such customers. Cliffs noted that these discussions and arbitrations may result in changes to the pricing mechanisms used with Cliffs' various customers and could impact sales prices realized in current and future periods. As discussed elsewhere in this Form 10-Q, the price adjustments mechanisms under Cliffs' North American term supply agreements may result in significant variations in royalties received by Mesabi Trust from quarter to quarter and year to year. These variations could adversely affect the royalties received by the

Trust and, in turn, the resulting cash available for distribution to Unitholders.

**Item 5. Other Information.**

***Mine Safety and Health Administration Safety Data.*** Pursuant to §1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act, Cliffs started reporting information related to certain mine safety results at Northshore. This information is available in Part II, Item V of Cliffs Form 10-Q filed October 29, 2010.

**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 Wipfli LLP, dated December 3, 2010 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and nine months ended October 31, 2010.

**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

December 3, 2010

By: /s/ Kenneth R. Ring  
Name: Kenneth R. Ring  
Title: Vice President

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