

North European Oil Royalty Trust  
P.O. Box 456  
Red Bank, New Jersey 07701  
(732) 741-4008

**IMPORTANT**  
**RETAIN THIS LETTER FOR PREPARATION OF YOUR  
1998 INCOME TAX RETURNS**  
**THE TRUST DOES NOT FILE NOR FURNISH TO OWNERS FORM 1099**

January 7, 1999

To the Present and Former Unit Owners of  
North European Oil Royalty Trust:

This letter sets forth the information you will require for preparation of your personal income tax return in connection with ownership of units of beneficial interest in North European Oil Royalty Trust (the "Trust") during 1998.

For Federal income tax reporting purposes, each owner of units in the Trust is considered to be a grantor or substitute grantor as well as a beneficiary of the Trust. As such, you are deemed to have received your pro rata share of overriding royalties when paid to the Trust and are permitted to deduct your share of Trust expenses. Consequently, your net taxable income may not correspond exactly to the cash distributions received. **TRUST DISTRIBUTIONS SHOULD NOT BE INCLUDED ON INCOME TAX RETURNS AS "DIVIDEND INCOME" AND ARE NOT ELIGIBLE FOR THE DIVIDENDS RECEIVED DEDUCTION FOR CORPORATIONS.**

The Internal Revenue Service has ruled that the overriding royalty rights held by the Trust represent economic interest in oil and gas deposits. Consequently, income realized from such interests is taxable to each unit owner as ordinary income subject to cost depletion. Each unit owner's basis for computing cost depletion is the adjusted cost basis for their units. This adjusted cost basis is to be reduced annually by the depletion previously allowed. Based upon computations of proved producing reserves estimated in accordance with accepted engineering analytical principles, Ralph E. Davis Associates, Inc. of Houston, Texas has recommended that the percentage to be applied to the cost basis to determine deductions for **the cost depletion for the year 1998 is 9.039%**. The suggested percentage for cost depletion deduction will be adjusted annually in accordance with reported production results and revised reserve estimates. Since the above percentage covers the entire year 1998, if you owned units for only a portion of the year, you are required to prorate the percentage depletion in the ratio that the cumulative Income per Unit shown on the following schedule for the period of your ownership bears to the Total Income per Unit for the entire year.

If you owned units for the period January 1, 1998 through December 31, 1998, you will be considered to have received and expended, on the cash basis, the respective totals for each unit shown in the following schedule. On the other hand, if you owned units for only a portion of that period, then the schedule shows the amounts of income and deductible expenses reportable by you for each unit

owned for the respective months. For your information, income is received between the 24th and the end of each month.

	<u>Income Per Unit</u>	<u>Expenses Per Unit</u>
January 1998	\$ 0.1867	\$ 0.0051
February	0.1482	0.0104
March	0.1306	0.0041
April	0.1242	0.0022
May	0.1499	0.0039
June	0.1473	0.0041
July	0.1340	0.0026
August	0.1297	0.0040
September	0.1324	0.0040
October	0.0644	0.0065
November	0.0967	0.0061
December	<u>0.1068</u>	<u>0.0044</u>
<b>TOTAL 1998</b>	<u><b>\$ 1.5509</b></u>	<u><b>\$ 0.0574</b></u>

Income and expenses should be reported on Federal Income Tax Form 1040, Schedule E. Under Part I, Income or Loss from Rental Real Estate and Royalties, line 1 enter property description as "oil and gas overriding royalty rights, Germany through North European Oil Royalty Trust." Your income and expenses are calculated by multiplying the above Per Unit figures by the number of units you owned. Your income should be entered on line 4. Expenses should be entered on line 18 as "miscellaneous Trust expenses." Your cost depletion deduction should be entered on line 20. This figure is derived by multiplying the total adjusted cost of all your units by .09039. Your adjusted cost is your original cost minus depletion deducted in prior years. Your net reportable income or loss should be entered on lines 22 and 26 in Part I and on line 40 in Part V and is determined by subtracting the amounts entered on lines 18 and 20 from the amount on line 4. All of the above entries should be adjusted for the period of time you owned your units, if you did not own them throughout 1998.

The royalty income received by the Trust represents income from Germany. Although there are no German taxes imposed on this income, this information should be considered if you have available foreign tax credits from other sources.

The Trust will submit this letter and the listing of unit owners during 1998 to the Internal Revenue Service. This list will contain names, addresses and tax ID or Social Security numbers; we suggest that you attach this letter to your tax returns.

Most sincerely yours,

John R. Van Kirk  
Managing Director