



Biannual Report – Nona Mills Project
July 2014 – December 2014
Issue # 1

Nona Mills Pty Ltd

T: (08) 9417 4727

E: info@nonamills.com.au

PO Box 5143

South Lake WA 6964

AUSTRALIA



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Welcome letter from the Director

Welcome to the first issue of the half yearly reports for the Nona Mills Project (NMP). What an exciting venture to be involved with and to get off the ground.

I will be updating you, our valued shareholder, with the results of the first 6 months of the NMP including details on the highs, lows, developments and solutions as well as relevant background information and a frame of reference to interpret this analysis.

Despite the enthusiasm for the project, it has not been without its challenges, which have been unforeseen and disappointing.

However, I am heartened and pleased to advise that the onset of new jet pump technology and a significant investment in gas compressor infrastructure are expected to produce better than anticipated outcomes.

As with any business endeavor, the aim is to control and manage the variables in order to produce the best possible result. Along with these encounters there will inevitably be factors beyond our control that affect the revenue of the project. The untimely drop in global oil prices is one such aspect and we look optimistically toward a positive trend in future oil prices. This trend, coupled with advances in technology and equipment is likely to see encouraging returns.

Payment details are provided in the report and it's important to note that these are received three to four months in arrears. The net investor revenue has taken into account the freight, taxes, royalties and operating costs for the NMP each month.

Finally, in closing, I will be providing a short update on global market trends, oil field developments and expectation for the six months moving forward. We are working hard to deliver optimum outputs and returns. I know you share my enthusiasm and I thank you for being a part of the Nona Mills Project.

Yours sincerely

A handwritten signature in black ink, appearing to read "Wayne Blazejczyk".

Wayne Blazejczyk

DIRECTOR



Oil market highlights

Crude Oil Price Movements

The OPEC Reference Basket increased by \$2.45 in June to reach \$107.89/b. Nymex WTI gained \$3.35 to \$105.15/b and ICE Brent added \$2.73 to \$111.97/b. Speculator net long positions on ICE Brent hit a record high on turmoil in Iraq. The Brent/WTI spread closed the month below \$7/b, after having widened to near \$10/b mid-month.

World Economy

World economic growth for 2014 has been revised to 3.1% from 3.4%, triggered by unexpected low 1Q14 growth in the US. The 2015 growth forecast stands at 3.4%, supported by the accelerating pace of OECD growth from 1.7% this year to 2.0% in 2015. China's GDP is forecast to grow by 7.2% in 2015 from 7.4% in the current year. India is seen growing at 5.8% next year, up from 5.5% in 2014.

World Oil Demand

Global oil demand growth in 2014 is forecast at 1.13 mb/d, broadly unchanged from the previous report. World oil demand in 2015 is anticipated to increase at a faster pace of 1.21 mb/d. OECD demand is expected to see positive growth for the first time since 2010, increasing around 40 tb/d, while non-OECD consumption is expected to provide the bulk of oil demand growth with 1.18 mb/d.

World Oil Supply

Non-OPEC oil supply is expected to increase by 1.47 mb/d in 2014, following a slight upward revision from the previous report. In 2015, non-OPEC supply is projected to grow at a slower pace of 1.31 mb/d. OPEC NGLs and non-conventional liquids are forecast to grow by 200 tb/d in 2015 to average 6.0 mb/d, after growth of 150 tb/d this year. In June 2014, OPEC crude oil production, according to secondary sources, declined by 79 tb/d to average 29.70 mb/d.

Product Markets and Refining Operations

Strong summer gasoline demand in the US has supported product markets in the Atlantic Basin. This has outweighed the considerable decline seen in the middle and bottom of the barrel, preventing refinery margins from falling in the US and Europe. In Asia, product markets have continued to lose ground, as weak demand amid the return of refineries from maintenance has caused refinery margins to fall sharply.

Tanker Market

Tanker market spot freight rates saw mixed movement in June. VLCC and Suezmax rates increased on the back of higher activity in several regions, while the tonnage list appeared shorter. In contrast, Aframax spot freight rates declined slightly, as a result of limited activities, while tonnage availability remained in surplus.

Stock Movements

OECD commercial stocks rose by 32 mb in May, but remained 53 mb below the five-year average. Crude stocks were 12 mb above the five-year average, while product inventories were 65 mb below. In terms of forward cover, OECD commercial stocks stood at a comfortable level of 57.7 days. Preliminary data for June shows that US total commercial oil stocks rose by 17.0 mb to stand 9 mb above the five-year average. Crude stocks were 19 mb above the five-year average, while products were 9 mb below.

Balance of Supply and Demand

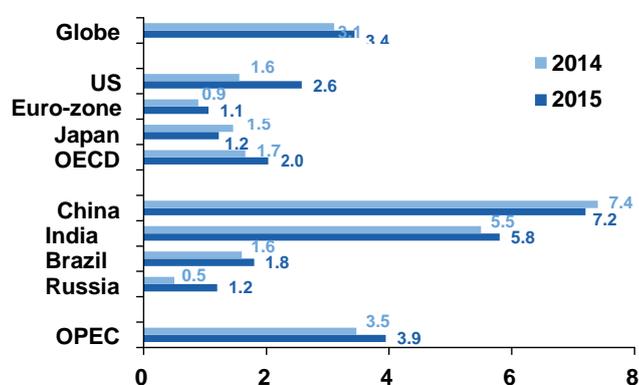
Demand for OPEC crude in 2014 remains unchanged from the previous report at 29.7 mb/d. Based on initial forecasts, demand for OPEC crude in 2015 is projected to average 29.4 mb/d, representing a decline by 0.3 mb/d.

The oil market outlook in 2015

Despite some weakness in the first half of the year, the world economy continues to recover. Global GDP growth in 2014 is now forecast at 3.1%, slightly higher than the estimated 2.9% for 2013. The US experienced a surprisingly large contraction in economic activity in the first quarter due to severe winter weather, leading to a downward revision in US GDP growth to 1.6% from 2.4% previously. However, with the US economy expected to rebound and continued large monetary stimulus in the Euro-zone and Japan, the OECD is seen growing by 1.7% in 2014 and 2.0% in 2015.

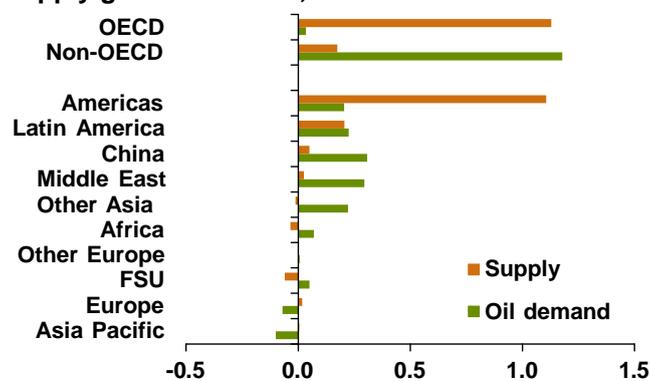
China's GDP is forecast to grow by 7.2% in 2015 from 7.4% in the current year. India and other major emerging economies are forecast to recover. This, in combination with the expected improvement in OECD economies, leads to a global GDP growth forecast of 3.4% in 2015 (**Graph 1**). However, a number of uncertainties remain, ranging from the consequences of monetary policies in the developed economies to the threat of deflation in the Euro-zone, as well as the risk of geopolitical tensions and potential spillovers.

Graph 1: GDP growth rate in 2015, %



Source: OPEC Secretariat.

Graph 2: Source of oil demand and non-OPEC supply growth for 2015, mb/d



Source: OPEC Secretariat.

World oil demand in 2015 is forecast to grow by 1.2 mb/d to average 92.3 mb/d, higher than the growth of 1.1 mb/d estimated for 2014 (**Graph 2**). For the first time since 2010, OECD oil demand is expected to grow, increasing by 40 tb/d, with Americas being the only OECD region exhibiting growth. Europe is expected to decline further, but at a slower pace, while Asia-Pacific oil demand will continue to contract. Non-OECD oil demand growth is expected to be around 1.2 mb/d, coming mainly from China, the Middle East, and Other Asia. In terms of products, consumption growth will be primarily driven by increased use of diesel oil and gasoline in the transportation industry, as well as to a lesser extent LPG and naphtha for petrochemical feedstocks. However, factors that could impact oil demand growth include the pace of economic activities in major consuming nations; the strength of substitution toward natural gas and other fuels; efforts to reduce subsidies; and ongoing policies to enhance fuel efficiency, especially in the transportation sector.

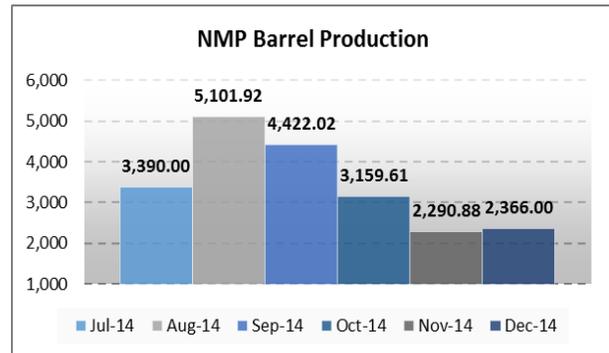
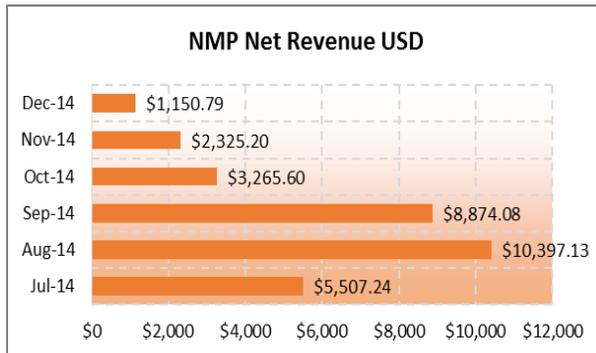
Non-OPEC supply is expected to grow by 1.3 mb/d in 2015 to average 57.0 mb/d, lower than this year's estimated increase of 1.5 mb/d. OECD Americas is expected to see the highest growth, with contributions from the US and Canada, followed by Latin America due to the increase in Brazilian production. However, a high level of uncertainty is associated with the 2015 non-OPEC supply forecast coming from geopolitical developments; regulatory and environmental concerns; and technical challenges such as sharper-than-expected decline rates, particularly in tight oil plays, and unplanned shutdowns. These factors could impact supply projections in either direction. OPEC NGLs and non-conventional oils are expected to increase at a faster pace in 2015, rising 0.20 mb/d to average 6.0 mb/d, following growth of 0.15 mb/d this year.

The above forecasts suggest a demand for OPEC crude of 29.4 mb/d in 2015, a decline of 0.3 mb/d from the current year. Therefore, even if next year's world economic growth turns out to be better than expected and crude oil demand outperforms expectations, OPEC will have sufficient supply to provide to the market.

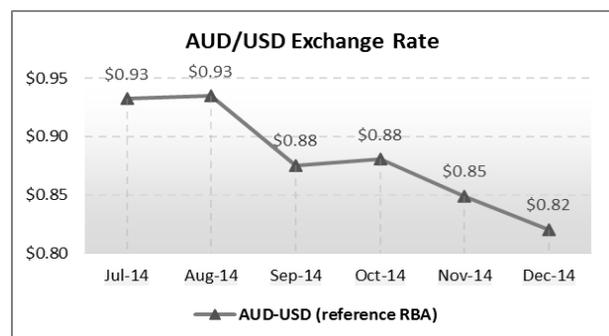


Project Report Update

Returns on the NMP over the six month period of July to December 2014 were 2.52%. The net investor revenue has taken into account the freight, taxes, royalties and operating costs for the NMP each month.



The June buy-in price delivered a rebate due to the high AUD/USD exchange rate of AUD \$0.93 at the time of transaction on 26 June. The dollar was relatively stable through July and August before dropping in September, and continued a steady decline to its low of \$0.78 in December. The subsequent falling value of the AUD against the USD has supported the positive conversion of NMP income from USD into AUD.



During this time, oil prices continued to decrease as supply outstripped demand amid a weakened global economy. Numerous other fields significantly reduced or halted production in a bid to slow supply and ease operational cost pressures.

Technological advancements provided the incentive to trial new equipment infrastructure that arose from unexpected sanding conditions within the well formations. The previously used Electronic Submersible Pumps will gradually be replaced with above ground Jet Pumps, which provide benefits including reduced maintenance and the potential for increased production.

Early evaluations of the field indicated insufficient gas production for gas lift to be considered the primary mode of artificially lifting the wells. The success in working over the initial first three wells has produced higher levels of gas than expected, which will now include gas lift as an important contribution in the recovery. A significant investment was undertaken with the purchase of a 700 horsepower gas compressor capable of operating six wells, which was installed in November.



Comparison Performance

The first two quarters of NMP performed well against other key investment goals surpassing the RBA Cash Rate of 2.5% and the ASX which delivered 0.41%. Bonds performed poorly with US 10 year in negative at -15.89% and AU 10 year faring worse at -21.17% over the same period.

Summary notes from Primrose Resources

Primrose Resources has provided key progress updates (included in this report) and a summary is outlined below.

The first phase of the Nona Mills Project is the secondary recovery of 10 wells within section B of the field. The redevelopment plan is to workover all 10 wells to enhance production, and Electronic Submersible Pumps (ESP's) were implemented as the primary method to artificially lift the wells.

The initial period of July to December 2014 resulted in lower levels of production than anticipated. A number of contributing factors were established including; sanding, the replacement of a compressor, weather constraints as well as parted rods.

While production climbed in July and August, three of the 10 wells proposed for full operation were removed from production until early September due to sanding caused by the ESP's. Consultant engineering firm Weatherford Engineers determined the vibrations from the pumps oscillating down hole were causing excessive sand production. The three wells were reworked and cleaned and Weatherford has since proposed relatively new technology in the form of Jet Pumps, which sit above ground eliminating down-hole disturbances from ESP's. Trials of a nearby lease indicate two to three times more fluid can be moved while subsequent outcomes have also been promising in reducing operating costs. The tenth well on the Nona Mills lease is being tested for compatibility with the Jet Pump, then further well remediation will be reviewed.

Production in October and November dropped due to the preparation and installation of a 700 horsepower multiple-well capacity compressor, on a gas drive system, to replace the existing smaller single-well model. During initial connection a factory installation mishap caused a flash fire that burnt a number of wiring harnesses to the machine. These were replaced and by the end of November all four gas drive wells were successfully linked and loaded. As four of the 10 wells are gas drive wells, it is anticipated that the compressor will increase production significantly. An unusual cold snap in November further delayed production, which was taken offline for eight days to reduce the chance of damage to the wells.

December began as a key month with the operator bringing the compressor and all four gas drive wells online. A parted rod was discovered soon thereafter, so a delay was inevitable until this was replaced by the end of the month. With all of the work done on the lease to date, the wells have not been able to run at full capacity however, a strategic plan is in progress to increase production.



Black Sands Advisors

508 West Lookout Drive
Richardson, Texas 75080

Aug 28, 2014
Nona Mills Update

Primrose Remediation: Primrose Resources began remediation work on the Nona Mills field approximately 18 months ago. The lease contained approximately 40 wells that over a period of 15 years had collectively produced over 7.5 million barrels of oil using a gas drive system operated and managed by Mobile Oil. Primrose's initial plan for this lease was to rework 10 wells at a time and to bring the wells back to an average production level of approximately 20 barrels/oil/day. Approximately six months into the project the Primrose engineers made the decision to do a dual completion on the fourth well. In addition to recompleting the field zone in the fourth well, they decided to complete the "F" zone in the well. The "F" zone came on at over 300 bbls per day and has stabilized at approximately 150 bbls/day. Based upon these results the engineering team re-logged the other wells and documented the presence of the "F" in other wells that were completed. The "F" zone is present in 3 other wells, which they expect to dual complete after the first of the year. The additional six wells were recompleted over the next twelve months and by May 2014 the lease had all ten wells online and was producing at a rate of over 400 bbls/day. Two Key Factors: When Primrose made the decision to purchase the Nona Mills field, there were two key factors that influenced the decision to make the purchase: 1. Primrose's chief engineer Kent Singleton had made a career of taking under producing fields and bringing them back to profitability by implementing a water flood strategy. After testing several of the abandoned wells on Nona Mills it was determined that this field was a perfect candidate for a water flood program. 2. There was a company (SLE) on an adjacent lease that had been very successful in deploying submersible pumps as part of their water flood program. Using a well-engineered water flood system and the submersible pumps, SLE was able to bring their production from 10 wells up to almost 500 bbls/day. With this information in hand Primrose began the first phase of a program to remediate and develop the 7,300+ acres. With a production rate of over 400/bbls/day in May 2014, Primrose's expectation was that the wells would continue to increase in production. They were very pleased with the recompletion of the wells and began to finalize plans to recomplete additional wells on the lease.

Curt Overland



Black Sands Advisors

508 West Lookout Drive
Richardson, Texas 75080

October 2014
Nona Mills Update

In early November the new compressor arrived and the team hooked up the first of four wells to the compressor. Within of coming online there was a flash fire on the new compressor. Turns out the boys at the factory had installed the exhaust vent backwards, thus the flash fire. The field team was able to quickly turn off the gas supply and the fire went out immediately. There were a few wiring harnesses that had to be replaced and within days the compressor was ready to come back on line; this time with no fires or other drama.

The field team was able to hook all four wells to the compressor over the next three weeks. The compressor has been running fully loaded now for almost three weeks and as expected production is picking up, it should take about 2 months for the wells to settle in and we will then know what max production will be.

As of December 1 all ten wells were up and producing.

On the 8th of December the 2301 went down with parted rods. The rig was on the well on the 15th and the well is expected to be back up by the 29th.

Cecil Overstreet



Black Sands Advisors

508 West Lookout Drive
Richardson, Texas 75080

November 20, 2014

Nona Mills Lease Update

Thank you for taking the time to come to the United States and personally visit the Nona Mills lease. We believe the time and expense of such a trip is worthwhile. During the visit, you were able to meet with the Operator and some of the team in the field. Paul Cothran explained the strategic plans on the lease regarding the current 10 wells and future expansion. Most importantly the current tactical plans are to install a new 700 Horsepower compressor that will be able to run up to 6 wells on a gas drive system. The compressor has been on order for several weeks and is expected to be delivered within the next 10 days. Once it is installed, the Operator will bring 4 wells up on the gas drive system. As it stands today, there is a smaller compressor that can only run 1 of the gas drive wells at a time. Considering that 4 of the 10 wells are gas drive wells, this should be able to increase production significantly. With to all of the work that is being completed on the lease, the wells cannot be run at full capacity. The August and September barrels sold were very similar. The October production was down due to the preparation for the new compressor (3,159.61 barrels). November has been unusually cold in Texas this year. When it gets this cold for several days in a row, it causes some of the wells to lock up. When this happens, the wells need to be taken offline so as not to cause damage the well. In November, the wells were offline for 8 days but are back up now. December will be an exciting month as the Operator brings the compressor online and brings all 4-gas drive wells online. The 10th well on the lease will be the well that will be tested with the jet pump. While there are a few ups and downs on the lease, a strategic plan is in place that is expected to produce very positive results. We hope that your onsite visit helped you to further understand the plan and also recognize what it takes to complete the plan. Regarding your next payment for the September oil production, please note the following: We stated that the September payment would be processed Nov. 27th in a previous letter, however, the 27th is a U.S. holiday and banks will be closed. We expect to receive funds next week from the Operators, but may see a delay due to the holiday. You will be updated as to the date we receive the funds and will wire immediately thereafter. TXCAAP, LLC just received the paperwork from the purchaser (Sunoco) stating checks will be sent directly from Sonoco beginning with the October payment. This will alleviate the time delays experienced in the past. We thank you for your patience in this matter and will be in close contact with the Operator to get the September payment as quickly as possible. Also note on your statement that we have estimated the Operating Costs over the past 3 months. While we have most of the Operating Cost numbers, we are going to review them in more detail with the Operator to get the final Operating Costs over the next several weeks. Once the review is complete, we can true them up if needed. Thank you for your participation in the Nona Mills Lease

Cecil Overstreet



Global Economic Climate & Oil

West Texas Intermediate

Nona Mills trades on the West Texas Intermediate (WTI) index, the main benchmark for US oil. WTI is a grade of crude oil that is also known as '*Texas light sweet*'. The market value reflects the quality characteristics of density ranging from light to heavy and sulfur content of sweet or sour. Crude oils such as WTI that are light and sweet are usually priced higher than heavy, sour crude oils, making the price of *Texas light sweet* economically significant.

Market Conditions

Crude oil prices decreased significantly in the second half of 2014 after historic high levels in recent years. The sharp decline was influenced by a number of factors, including:

- Increase in supply with US shale oil production rising and inventories swelling.
- The OPEC decision not to reduce output in response to falling crude oil prices.
- Reduced growth in demand due to weak global economic activity, particularly in China and Europe.

Crude Oil Price Movements

The OPEC Reference Basket (ORB) fell by \$2.28 to \$105.61/b in **July** amid supply disruptions and weaker-than-expected refinery crude demand in Asia and Europe. Nymex WTI lost \$2.75.

In **August**, speculators sharply cut net long positions amid ample supply and low demand with the ORB falling by \$4.86 to \$100.75/b while Nymex WTI declined by \$6.32 to \$96.08/b.

Sluggish demand and ample supply continue to weigh on the oil market in **September** and the ORB slipped \$4.77 to \$95.98/b and Nymex WTI fell \$3.04/b to \$93.03/b.

The next quarter saw further declines with \$10.92 falling from the ORB against the previous month to average \$85.06/b in **October**. Nymex WTI dropped \$8.83 to average \$84.34/b.

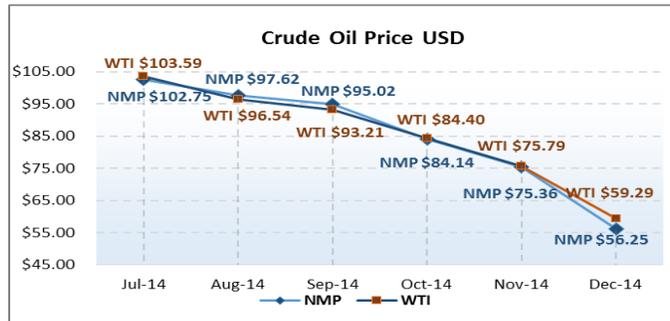
In **November**, the trend of increasing supply and low demand continued as the ORB finished down \$9.49 to \$75.57/b and Nymex WTI lost \$8.53 to stand at \$75.81/b.

For the last month of the calendar year the **December** ORB averaged \$59.46/b with 21% decline of \$16.11, the sharpest month-on-month drop since the financial turmoil of 2008. Nymex WTI lost \$16.52 to finish at \$59.29/b.



Crude Oil Price Annual Overview

The ORB ended December with its lowest value since May 2009, its yearly value was down \$9.58 on 2013 to \$96.29/b and in the second half of 2014 it lost half its value. The Nymex WTI yearly value dropped to \$93/b and by December it was nearly half its June peak of \$105.15/b



Expectations Moving Forward

Several ESP's are continuing to assist production across the field however when the mechanical lifecycle expires in the coming year they will be replaced with either a gas lift or jet pump as both methods combat excessive sanding. There is sufficient gas production from a number of wells to utilise this lift method while another advantage of a jet pump is its surface location, which significantly minimises maintenance and workover concerns.

While the changeover would be more immediate with a higher barrel price, it is not anticipated to occur until there is upward motion in the value of oil, and is therefore proposed for the second half of 2015.

As with many commodities, crude oil prices fluctuate greatly. Over the short term, market sentiment about economic conditions and geo-political events can drive rapid movements in price. Over the medium to longer term, crude oil prices are driven by supply and demand factors, with periods of high or low prices lasting several years. Extended periods of high oil prices give an incentive to oil producers to invest in exploration and expansion. This leads to an increase in supply which in turns puts downward pressure on prices. Conversely, when oil prices are low, oil producers tend not to invest, which puts upward pressure on prices as growth in demand is not met by supply.





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