Biannual Report – Nona Mills Project

January 2016 to June 2016

Issue #4

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NONA MILLS

LETTER FROM THE DIRECTOR

The first half of 2016 brought about the most trying time for the oil industry yet, with January recording the lowest prices since 2004, at less than USD 30 a barrel. By the start of Q2, levels were returning to the second half of 2015, at just over USD 45 a barrel. This is still slightly below the average breakeven for US shale producers, but it's close to where the Nona Mills Project can operate at a profit, albeit a very small one. Having said that, tough times will continue to ripple through the industry and the world economy until barrel pricing exceeds USD 60, which is forecast for end 2017.

Fundamentally nothing changed in Q1 and Q2 as oversupply persisted. However, a slowdown in held stocks was a result of bushfires in Canada, as well as a wave of militant attacks in Nigeria which saw its production at the lowest levels in over 10 years. The world was also closely watching the Brexit campaign, which had a broader impact across financial markets, but minimal in crude oil. In rankings, the UK is at the bottom end of the top 20 producers and accounts for less than 2% of the world's demand.

In Q1, market sentiment was high in the hope that OPEC would vote to restrain output across its 13 member countries, which would see the ongoing surge in supply start to fall. Although the purported cap was blocked by major crude exporters Iran and Saudi Arabi, it's still widely hoped to be in effect by the end of the calendar year. Indonesia reactivated its OPEC membership in January, after a seven-year absence and all figures have been adjusted to reflect this change.

Industry reports continue to note a period of rebalancing throughout 2016 and into 2017, and it's no surprise that growth in demand from powerhouse nations China, India and the US is expected to lead the restoration. At which point, we all look forward to the return of more favourable pricing and conditions.

You will have noticed that this report is delayed, which is due to the re-introduction of the previous operator of the field, from January 2016. The review of the business and the condition of the wells was lengthy, and as a result we couldn't provide you with information until now. We apologise and are working with all parties to ensure the next report is received in a timelier manner.

Yours sincerely

W. Blazejczyk

Wayne Blazejczyk
DIRECTOR

OIL MARKET HIGHLIGHTS

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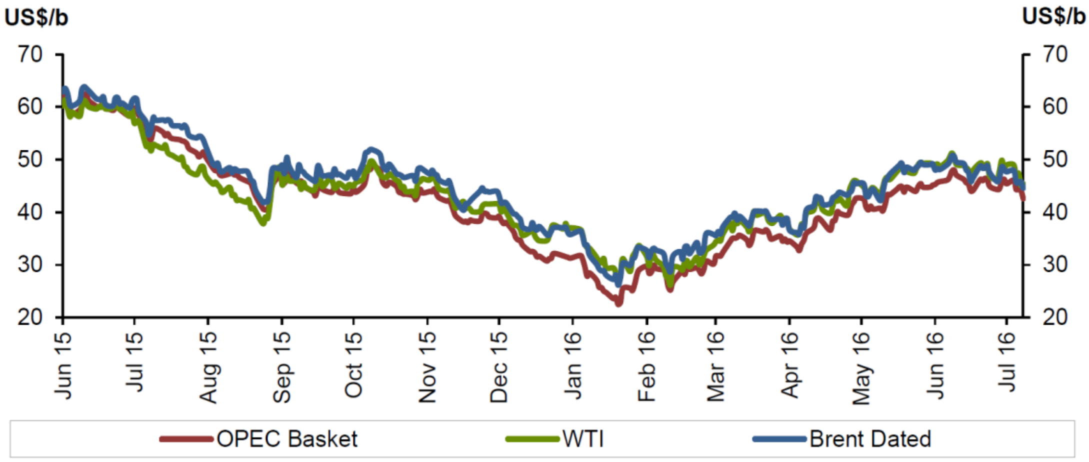
Crude Oil Price Movements: six-month summary
January 2016 was a devastating month that marked the lowest levels for the OPEC Reference Basket (ORB) in more than 12 years, dipping well below $30b/l to $26.5/bl at its bottom. The following five months from February to June saw solid rises, with Q2 soaring 41%, the ORB's largest ever q-o-q percentage gain. The first half closed 75% higher on average, and since mid-May it hovered near the $50/bbl, to be more reminiscent of 2015 prices. Given the low pricing results, it's no surprise that the ORB value declined in first six months of the year by 34.4%, or $18.97, to end $36.13/bbl compared to the previous year.

Crude oil futures rose steadily during Q2 after also reaching low points early in the year. Despite its recovery, spot prices for international benchmarks WTI and Brent in June 2016 were 20% to 25% lower than the levels seen a year earlier.

A slowdown in US production was positive for price gains, along with a weakened US dollar against many major currencies and increased oil demand. Outages in Alberta, Canada were caused by widespread fires and reduced Non-OPEC overall production. Political conflict in Libya and militant attacks in Nigeria reduced OPEC output, with Nigeria experiencing its lowest production in more than a decade. Despite these, OPEC delivered record levels first in January and then in June.

By July 2016, National Australia Bank had increased its forecast barrel pricing to reflect the current conditions, and expects oil to fluctuate between USD45 to USD50/bbl in Q3 2016, extending into USD 50 to USD 52/bbl by Q4 and around USD60/bbl by end-2017.

Graph 1.1: Crude oil price movement, 2015-2016



Sources: Argus Media, OPEC Secretariat and Platts.

Graph: OPEC Monthly Oil Market Report – July 2016

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World Economy

At the end of Q2, global GDP growth for 2016 was lowered from 3.1% to 3.0%, influenced by uncertainty after the UK Brexit vote. Global growth in 2017 is forecast slightly higher at 3.1%, but this a reduction from previous projections following the likely dampening from the UK outcome. The cautious outlook was enhanced in the OECD economies, and it was also revised downward for 2016, from 1.9% to 1.8%. Lower growth of 1.7% is forecast for the OECD in 2017.

Modelling for growth in the US in 2016 is 2%, while 2017 will see an increase to 2.1%. GDG growth in 2016 for the major emerging economies of India and China remained broadly unchanged at 7.5% and 6.5% respectively, before a drop in 2017 to 7.2% and 6.1%. Japan may see slightly higher growth next year at 0.8%, compared to 0.7% in the current year, and Brazil and Russia are forecast to rebound from a two-year recession, growing by 0.4% and 0.7% in 2017.

Table 3.1: Economic growth rate and revision, 2016-2017, %

	World	OECD	US	Japan	Euro-zone	China	India	Brazil	Russia
2016*	**3.0**	**1.8**	**2.0**	**0.7**	**1.5**	**6.5**	**7.5**	**-3.4**	**-1.0**
Change from previous month	-0.1	-0.1	0.0	0.2	-0.1	0.0	0.0	0.0	0.1
2017*	**3.1**	**1.7**	**2.1**	**0.8**	**1.2**	**6.1**	**7.2**	**0.4**	**0.7**

*Note: * 2016 and 2017 = forecast.*

Source: OPEC Secretariat.
Graph: OPEC Monthly Oil Market Report – July 2016

World Oil Demand

Based on figures released by the International Energy Agency (IEA), demand for oil in 2016 is expected around 96.1 mb/d, an increase of 1.4% over 2015. Global vehicle gasoline consumption typically plays a major role and the US driving season (April to September) is a key marker. From January to April, US vehicle consumption averaged 2.5% higher than the same period in 2015, and the EIA reports that consumption "*is forecast to increase by 130,000 b/d (1.5%) to 9.29 million b/d in 2016, which would make it the highest annual average gasoline consumption on record, beating the previous record set in 2007 by 0.1%."* Global demand growth in 2017 is proposed to improve a further 1.3 mb/d to 97.4 mb/d, around 0.3 mb/d above the last ten years' average.

Demand for OPEC crude is expected to average 31.9 mb/d in 2016, increasing 1.9 mb/d over 2015. 2017 demand is projected at 33.0 mb/d, with growth of 1.1 mb/d over 2016 and assisting in the reduction of overall excess oil stocks.

In considering the outcome of the Brexit referendum, oil market volatility has been relatively minimal as the UK and EU more broadly play only a limited role in generating oil demand growth. According to OPEC, the greatest growth potential for crude and refined products is India, China, to some extent the Middle East and the United States.

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Global Oil Demand (2015-2017)

(million barrels per day)

	1Q15	2Q15	3Q15	4Q15	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
Africa	4.1	4.1	4.0	4.2	4.1	4.2	4.2	4.2	4.3	4.2	4.4	4.4	4.3	4.4	4.4
Americas	31.0	31.0	31.7	31.3	31.2	31.0	31.2	31.7	31.5	31.3	31.1	31.3	31.9	31.5	31.4
Asia/Pacific	32.2	31.5	31.5	32.5	31.9	33.1	32.4	32.4	33.4	32.8	34.0	33.2	33.1	34.2	33.6
Europe	14.1	14.3	14.9	14.4	14.4	14.3	14.5	14.9	14.4	14.5	14.3	14.6	14.9	14.4	14.6
Former Soviet Union	4.6	4.9	5.1	5.0	4.9	4.9	5.0	5.1	5.0	5.0	4.9	5.0	5.1	5.1	5.0
Middle East	7.6	8.3	8.6	8.1	8.2	7.8	8.3	8.7	8.3	8.2	8.0	8.4	8.8	8.4	8.4
World	**93.6**	**94.1**	**95.7**	**95.5**	**94.7**	**95.2**	**95.6**	**96.8**	**96.9**	**96.1**	**96.6**	**96.9**	**98.1**	**98.1**	**97.4**
Annual Change (%)	1.6	2.1	2.5	1.4	1.9	1.7	1.5	1.2	1.4	1.5	1.4	1.4	1.3	1.2	1.3
Annual Change (mb/d)	1.5	1.9	2.4	1.3	1.8	1.6	1.4	1.2	1.4	1.4	1.4	1.3	1.3	1.2	1.3
Changes from last OMR (mb/d)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1

Graph: IEA Oil Market Report – 13 July 2016

World Oil Supply

Non-OPEC oil supply in 2016 is forecast to contract 0.9 mb/d, largely due to lower oil output from Canada and the US, with US crude production averaging around 8.6mb/day in June, well down from 9.6mb/day peak in June last year. The EIA estimates US production to further ease, averaging 8.6mb/day for 2016, compared to 9.43mb/day in 2015. This reflects declining production in the Lower 48 onshore states, and is only partly offset by growing production in the Gulf of Mexico. The IEA refers to a Federal Reserve Bank of Dallas survey of 152 energy firms that suggests business activity improved in the second quarter and that production declines eased compared with 1Q16.

While US crude oil production is forecast lower at 8.2mb/d in 2017, the rate of decline is expected to ease. Total non-OPEC oil supply is projected to dip for a second year, by 0.1 mb/d to average 55.9 mb/d. Declines in OECD and FSU supply in 2017 are projected at 0.18 mb/d and 0.13 mb/d, respectively Brazil and Canada are the main drivers of oil growth next year while Mexico, the US, and Norway are expected to see declines.

Crude oil cuts from OPEC and non-OPEC nations in 2017 will go a long way to reducing the crude oil glut and support higher prices.

Non-OPEC Supply

(million barrels per day)

	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
Americas	19.9	19.9	18.9	19.2	19.5	19.4	19.5	19.4	19.6	19.6	19.5
Europe	3.5	3.6	3.4	3.2	3.4	3.4	3.4	3.4	3.2	3.4	3.4
Asia Oceania	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total OECD	23.9	24.0	22.7	22.9	23.3	23.2	23.3	23.2	23.2	23.4	23.3
Former Soviet Union	14.0	14.3	14.0	14.0	14.0	14.1	14.0	14.0	14.0	14.1	14.0
Europe	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	4.3	4.2	4.0	4.0	4.0	4.1	4.0	4.0	4.0	4.0	4.0
Other Asia	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.7	2.7	2.7
Latin America	4.6	4.4	4.4	4.6	4.6	4.5	4.7	4.7	4.7	4.7	4.7
Middle East	1.3	1.3	1.3	1.3	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Africa	2.0	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.0
Total Non-OECD	29.1	28.9	28.5	28.6	28.7	28.7	28.7	28.7	28.7	28.8	28.7
Processing Gains	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Global Biofuels	2.3	1.9	2.5	2.7	2.4	2.4	2.0	2.5	2.9	2.5	2.5

Total Non-OPEC	57.4	57.0	56.0	56.5	56.7	56.5	56.3	56.6	57.1	57.0	56.8
Annual Change (mb/d)	1.4	-0.1	-1.2	-1.1	-1.2	-0.9	-0.7	0.6	0.6	0.4	0.2
Changes from last OMR (mb/d)	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.1	0.0	0.0

Graph: IEA Oil Market Report – 13 July 2016

Crude Oil Price Movements: Month by month review

The OPEC Reference Basket (ORB) fell $7.14 or 21% in **January** to average $26.50/bbl. Crude oil futures were down with ICE Brent dropping $6.98 from December to $31.93/bbl. Nymex WTI lost $5.67 to average $31.66/bbl. The Brent-WTI spread narrowed $1.91 to $0.15/bbl.

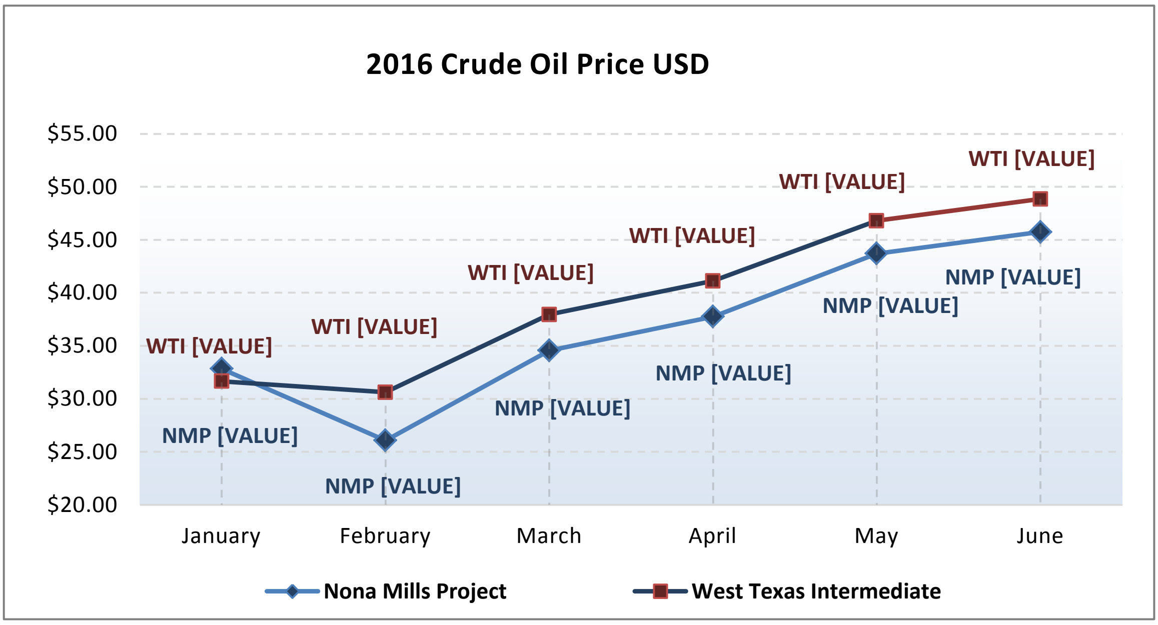
In **February**, the ORB showed its most significant recovery since May 2015 with an upward shift of 8.4% or $2.22 to settle at $28.72/bbl. Oil futures were mixed with ICE Brent increasing $1.60 to $33.53/bbl while Nymex WTI dropped $1.16 to $30.62/bbl. The Brent-WTI spread widened by $2.76 to reach $2.91/bbl.

A significant jump in the market saw the ORB increase almost 21% or $5.93 in **March**, averaging $34.65/bbl. Crude oil futures also surged with ICE Brent gaining $6.26 to $39.79/bbl and Nymex WTI rising $7.34 to reach $37.96/bbl. The Brent-WTI spread narrowed sharply to $1.83/bbl.

The ORB experienced a steady rise of $3.21 or $9.3% in **April** to average $37.86/bbl. Oil futures also increased with ICE Brent rising $3.55 to $43.34/bbl and Nymex WTI gaining $3.16 to $41.12/bbl. The Brent-WTI spread narrowed to $2.21/bbl.

The ORB growth continued in **May**, gaining $5.35 or 14.1% to average $43.21/bbl. Oil futures also grew with ICE Brent ending up $4.31 to $47.65/bbl and Nymex WTI rising $5.67 to achieve $46.80/bbl. The Brent-WTI spread narrowed significantly to $0.85/bbl.

June saw the ORB gain for the fifth consecutive month, with growth of $2.63 or 6.1% to average $45.84/bbl. Oil futures also finished the month on a high with ICE Brent up $2.28 to $49.93/bbl and Nymex WTI up $2.06 to $48.85/bbl. The ICE Brent-WTI spread widened to $1.07/bbl

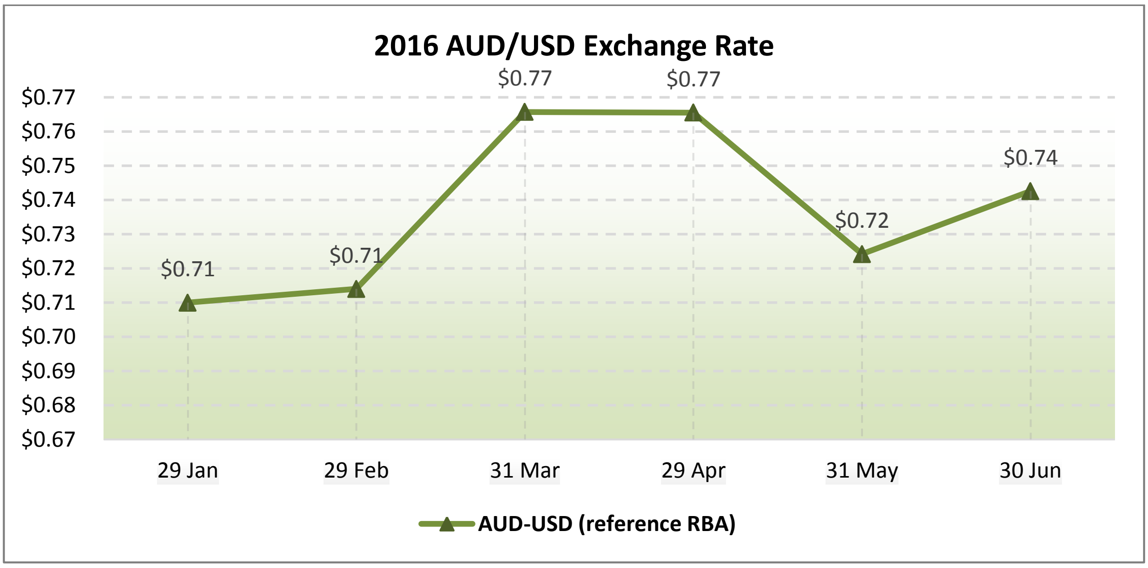


Reference: OPEC Monthly Oil Market Report – July 2016

GLOBAL MARKET CONDITIONS

The reduced cash flows experienced by producers in 2015 and H1 2016 are set to continue into 2017, prompting many to scale back investment programs, and defer major new undertakings until stability is more evident and a sustained price recovery occurs. Tighter lending conditions may also limit capital, giving rise to distressed asset sales. For producers that are more financially sound, consolidation will be the most effective strategy in the short term. Lower onshore investment is expected to reduce the count of oil-directed rigs and well completions in 2016 and 2017.

The outcome of the UK Brexit vote surprised global financial markets, and is unveiling as an important downside risk for the world economy. As a result, the global outlook for 2016-17 has worsened, despite the better-than-expected performance in early 2016. According to the IMF, the deterioration reflects the economic consequences of a sizable increase in uncertainty brought about by Brexit.



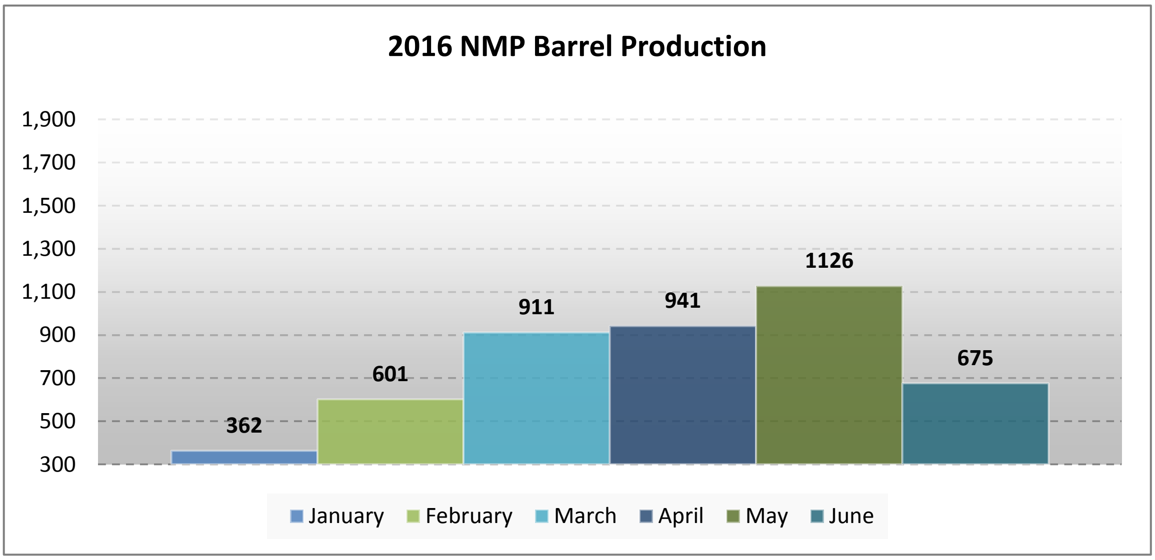
References: OPEC Monthly Oil Market Reports – February to July 2016, US Energy Information Administration Short Term Energy Outlook – July 2016, International Energy Agency Oil Market Report – 13 July 2016, National Australia Bank Minerals Energy Outlook – July 2016, Reserve Bank of Australia.

NONA MILLS PROJECT MOVING FORWARD

A new operator took control of the Field in January 2016, and brings previous experience from the site, formerly as part of Primrose Resources, and now as Western Energy Group, which purchased all of Primrose's interest in the project. As part of the management review, operating expenses were trimmed in March and April, with the cost of operation versus the price of oil the immediate challenge. By June the oil price was closer to break-even but the approach will continue to be slow until prices stabilise.

General maintenance progressed as required and with consideration to production constraints. In Q1 four wells were functioning, which increased to six of the 10 wells for most of Q2. During this period, one of the key wells experienced issues with paraffin clogging up the perforations. Once this was resolved production was reintroduced with 10% increase to the well.

Average output fluctuated between 10 and 40 barrels per day. The yield produced a slight reduction in oil quality, achieving lower than average crude oil pricing.



NONA MILLS PROJECT REPORT UPDATE

The net investor revenue of the NMP has taken into account the freight, taxes, royalties and operating costs each month. Please note that payment details are received three to four months in arrears. Given the current economic climate it is important to be reminded that the Nona Mills Project is not a short-term consideration.

For the six-month period of January to June 2016 operational costs exceeded the investment, so on a month by month reconciliation there were no royalties payable. You'll note from your statements that no distribution was made for this time.

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