Biannual Report – Nona Mills Project

July 2015 to December 2015

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Nona Mills Pty Ltd
(08) 9417 4727
info@nonamills.com.au
PO Box 5143
South Lake WA 6964
AUSTRALIA

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LETTER FROM THE DIRECTOR

The 2015 year was a challenging period in what we now know as a global market adjusting to lower oil prices. It's no surprise that supply was a major contributor with 18 months of excess production and stock levels rising well above the five-year average. But despite the glut in inventories, oil demand in 3Q of the 2015 calendar year achieved its largest growth in five years, aided by lower prices, world population increases and oil consumption.

Global economic developments remain central to the overall outlook and continue to impact the industry. Heightened volatility in financial markets and renewed concerns about China's growth prospects have lowered the oil demand outlook for China (the world's largest crude importer and second largest consumer), despite recent data showing Chinese crude demand growing at a robust rate in 2015.

The fourth quarter of the calendar year evidenced a further downward trend in oil prices with crude oil reaching a 12 year low, achieved in part by the enduring inventories. While production in Non-OPEC countries slowed, OPEC's increased and at its biannual meeting in December 2015, it abandoned its previous suggested output quota of 30mb/d. This saw OPEC end December with a supply increase for the 19th consecutive month. The decision appears to suggest OPEC is defending its 40% market share for its member countries and allowing market forces to determine price.

The industry remains focussed on correcting the weaknesses in the market and there are clear signs that it will gradually rebalance over the next 18 months, with hope stemming for a more positive 2017. In the meantime, the next period will still have fluctuations in supply, demand and price, but we will continue to monitor the progress in anticipation of the longer term opportunities.

Yours sincerely

W. Blazejczyk

Wayne Blazejczyk
DIRECTOR

NONA MILLS

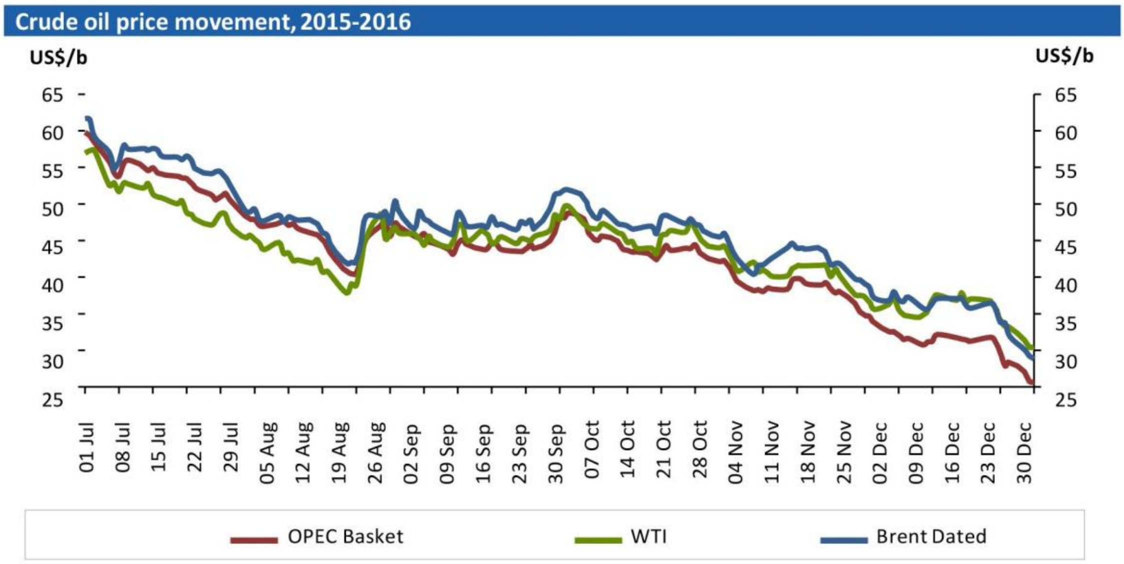
OIL MARKET HIGHLIGHTS

Crude Oil Price Movements: 12-month summary

The OPEC Reference Basket (ORB) plunged $23.06 or 31% in the six months to December 2015 and its yearly value almost halved to $49.49/b. This is the second consecutive year the value has dropped, settling at its lowest level since 2004. Pressure persisted from 18 months of oversupply in the oil market coupled with increasing signs of slowdown in the Chinese economy. In addition, oil prices were being driven downward by the appreciation of the US dollar and fluctuations in equity markets. One of the warmest starts to winter on record in the Northern Hemisphere undercut seasonal demand for heating oil, affecting prices and causing inventories to swell further.

In oil futures both ICE Brent and Nymex WTI experienced the largest-ever declines y-o-y and were down double digits for the second year in row. ICE Brent was down by $45.87 or 46.1% to average $53.64/b compared to $99.51/b in 2014 and Nymex WTI plunged by $44.20 or 47.5% to settle at $48.80/b from $93/b in 2014. Speculators cut their net long positions in Nymex WTI futures and options to the lowest since 2010.

By early 2016, National Australia Bank had reviewed its forecast model and expects oil to fluctuate between USD30 to USD35/bbl in the first half of 2016, before reaching USD40/bbl by the end of the year.



Reference: OPEC Monthly Oil Market Report – January 2016

World Economy

Global GDP growth for 2015 was lowered to 3.0%, while the 2016 forecast is unchanged at 3.4%. The OECD economies was maintained at 2.0% in 2015 and 2.1% in 2016. Growth in China was forecast at 6.8% and 6.4% respectively with changes evidenced in the slowing of its economy, while India remains more solid at 7.3% and 7.7%. The many ongoing country specific economic challenges, geopolitical issues and their potential spill-over into the real economy remain a concern and central bank policies continue to be a factor, amid lower global inflation.

World Oil Demand

World oil demand growth in 2015 was revised marginally higher by 10 tb/d to 1.54 mb/d to average 92.92 mb/d. This upward revision was broadly a result of better-than-expected data for OECD Europe and Other Asia in 3Q of August to September 2015. For 2016, global oil demand growth is expected to be at around 1.26 mb/d.

World oil demand in 2015, mb/d	2014	1Q15	2Q15	3Q15	4Q15	2015	Growth	%
Americas	24.18	24.25	24.12	24.77	24.89	24.51	0.32	1.34
of which US	*19.43*	*19.60*	*19.47*	*19.99*	*20.10*	*19.79*	*0.36*	*1.87*
Europe	13.39	13.49	13.52	13.98	13.47	13.61	0.23	1.71
Asia Pacific	8.16	8.77	7.74	7.61	8.26	8.09	-0.07	-0.84
Total OECD	**45.73**	**46.50**	**45.38**	**46.36**	**46.62**	**46.21**	**0.48**	**1.06**
Other Asia	11.42	11.46	11.95	11.89	11.78	11.77	0.35	3.07
of which India	*3.79*	*4.01*	*3.98*	*3.91*	*4.07*	*3.99*	*0.21*	*5.43*
Latin America	6.60	6.40	6.66	6.89	6.54	6.62	0.02	0.30
Middle East	8.14	8.24	8.21	8.74	8.22	8.35	0.21	2.59
Africa	3.78	3.88	3.85	3.79	3.94	3.86	0.09	2.25
Total DCs	**29.95**	**29.99**	**30.66**	**31.31**	**30.48**	**30.61**	**0.67**	**2.22**
FSU	4.58	4.43	4.27	4.66	4.97	4.58	0.00	0.09
Other Europe	0.65	0.66	0.62	0.66	0.75	0.67	0.02	2.79
China	10.46	10.44	11.06	10.69	11.13	10.83	0.37	3.51
Total "Other regions"	**15.70**	**15.53**	**15.95**	**16.01**	**16.84**	**16.09**	**0.39**	**2.48**
Total world	**91.38**	**92.01**	**92.00**	**93.68**	**93.95**	**92.92**	**1.54**	**1.68**
Previous estimate	91.35	91.97	92.03	93.56	93.94	92.88	1.53	1.68
Revision	0.03	0.05	-0.04	0.12	0.01	0.04	0.01	0.01

Totals may not add up due to independent rounding
Quarterly periods based on a calendar year
Reference: OPEC Monthly Oil Market Report – January 2016

Non-OPEC oil supply in 2015, mb/d	2014	1Q15	2Q15	3Q15	4Q15	2015	15/14
Americas	20.08	20.99	20.64	21.08	20.77	20.87	0.79
of which US	*12.96*	*13.74*	*14.01*	*14.00*	*13.75*	*13.87*	*0.91*
Europe	3.60	3.69	3.77	3.67	3.78	3.73	0.13
Asia Pacific	0.51	0.43	0.45	0.50	0.49	0.47	-0.04
Total OECD	**24.19**	**25.12**	**24.85**	**25.25**	**25.04**	**25.06**	**0.87**
Other Asia	2.60	2.72	2.72	2.65	2.68	2.69	0.09
Latin America	5.01	5.23	5.16	5.18	5.14	5.18	0.17
Middle East	1.34	1.30	1.27	1.24	1.23	1.26	-0.08
Africa	2.36	2.36	2.36	2.35	2.34	2.35	-0.01
Total DCs	**11.31**	**11.61**	**11.51**	**11.42**	**11.38**	**11.48**	**0.17**
FSU	13.55	13.68	13.61	13.59	13.66	13.63	0.09
of which Russia	*10.68*	*10.74*	*10.76*	*10.81*	*10.87*	*10.79*	*0.12*
Other Europe	0.13	0.13	0.13	0.13	0.13	0.13	0.00
China	4.29	4.33	4.39	4.38	4.38	4.37	0.08
Total "Other regions"	**17.97**	**18.14**	**18.13**	**18.10**	**18.18**	**18.14**	**0.16**
Total Non-OPEC production	**53.48**	**54.87**	**54.49**	**54.77**	**54.59**	**54.68**	**1.20**
Processing gains	2.16	2.19	2.19	2.19	2.19	2.19	0.02
Total non-OPEC supply	**55.64**	**57.05**	**56.68**	**56.95**	**56.78**	**56.87**	**1.23**

Quarterly periods based on a calendar year
Reference: OPEC Monthly Oil Market Report – January 2016

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World Oil Supply

Non-OPEC oil supply is estimated to have averaged 56.87 mb/d in 2015, an increase of 1.23 mb/d y-o-y (*see graph above*). The upward revisions occurred mainly in the second half of the 2015 calendar year with 164 tb/d in the OECD, 27 tb/d in Developing Countries (DC) and 38 tb/d in Former Soviet Union (FSU). Non-OPEC oil supply in 2016 is projected to decline by 0.66 mb/d to average 56.21 mb/d. Non-OPEC OPEC Natural Gas Liquid (NGL) production is forecast to grow by 0.17 mb/d to average 6.32 mb/d in 2016 (including 0.16 mb/d from Indonesia), following growth of 0.15 mb/d in 2015.

Australia's oil supply declined by approximately 50 tb/d to average 0.38 mb/d in 2015. Australia's oil production outlook for 2016 could reverse directions on expected healthy oil from new start-up projects. However, the risk forecast for 2016 is on the high side due to budget cuts in the IOCs in areas like upstream investments, as well as issues related to logistics and shutdowns.

Balance of Supply and Demand

Demand for OPEC crude was estimated at 29.9 mb/d in 2015 with a gain of 0.2 mb/d over 2014, with the growth eventuating in 3Q and 4Q of the calendar year. OPEC crude demand for 2016 is projected at 31.6 mb/d, up by 1.7 mb/d over the estimated level of 2015.

Crude Oil Price Movements: Month by month review

The OPEC Reference Basket (ORB) ended **July** down $5.02 or 10% to average $54.19/b. ICE Brent ended at $56.76/b, down $6.99 from June 2015. Nymex WTI lost $8.90 to stand at $50.93/b as speculators net-long positions in WTI declined by more than 50% in July. The Brent-WTI spread widened $1.91 to $8.83/b.

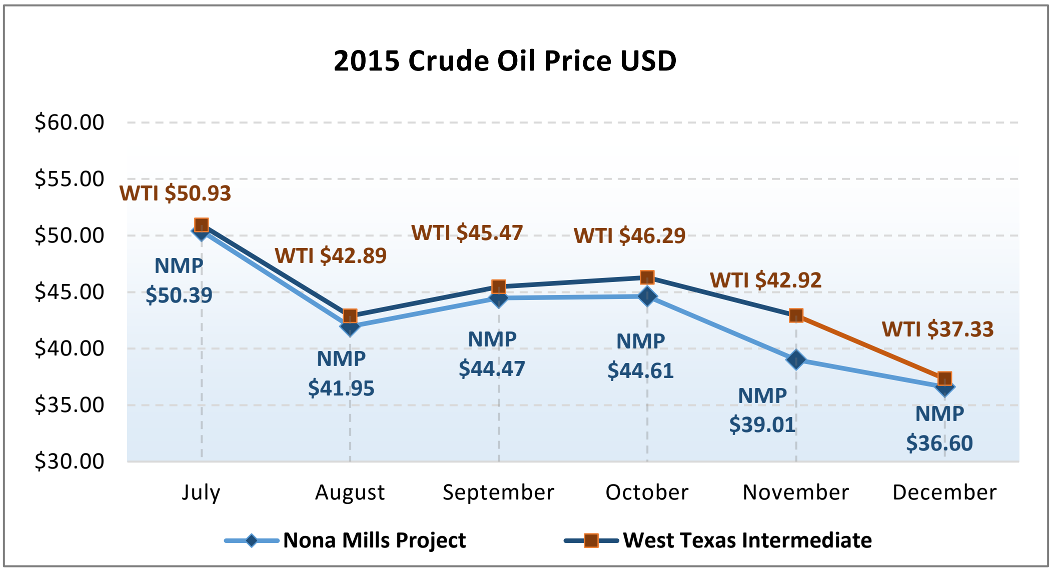
In **August**, the ORB fell below $50/b to average $45.46/b, amid sell-offs from continuing oversupply and economic turbulence in China. Crude oil futures plunged sharply again with ICE Brent losing $8.55 to $48.21/b and Nymex WTI dropping $8.04 to stand at $42.89/b. The Brent-WTI spread narrowed to $5.32/b.

The market declined slightly with the ORB retreating in **September** by $0.63 to $44.83/b. Signs of alleviation led to a small gain of $0.33 in ICE Brent to average $48.54/b and Nymex WTI also rose $2.58 to average $45.47/b. The Brent-WTI spread narrowed sharply to $3.07/b.

The ORB experienced a small rise of $0.19 in **October**, maintaining a consistent level for three months to average $45.02/b. Crude oil futures further increased with ICE Brent rising $0.75 to $49.29/b and Nymex WTI gaining $0.82 to $46.29/b. Speculator net length declined as short positions increased. The Brent-WTI spread narrowed to almost $3/b.

November resulted in another decline due to low refinery intake, losing $4.52 to stand at $40.50/b. Crude oil futures also fell $3.36 and $3.37 respectively with ICE Brent averaging $45.93/b and Nymex WTI $42.92/b. The Brent-WTI spread widened marginally to $3.01/b.

December saw the ORB drop almost 17% to average $33.64/b amid increasing signs of slowing in the Chinese economy. ICE Brent fell $7.03 to $38.90/b, while Nymex WTI fell $5.60 to just $37.33/b, causing the Brent-WTI spread to narrow significantly to 1.58/b as US crude gained some support from a flash fall in inventories, reduced drilling and the lifting of a ban on most US crude exports.



GLOBAL MARKET GROWTH

Global GDP growth for 2015 was lowered to 3.0%, while the 2016 growth forecast remains at 3.4%. The slowing momentum in the DC's continues, given the risk of further weakening in Brazil and Russia, and lower GDP growth in commodity producing economies. Recent volatility in China's asset markets added some concern. Challenges remain in the OECD, as indicated by declining industrial production in the US however, private household consumption remains healthy and could boost the US economy further. Also, central bank policies will continue to constitute an influential factor, amid lower global inflation.

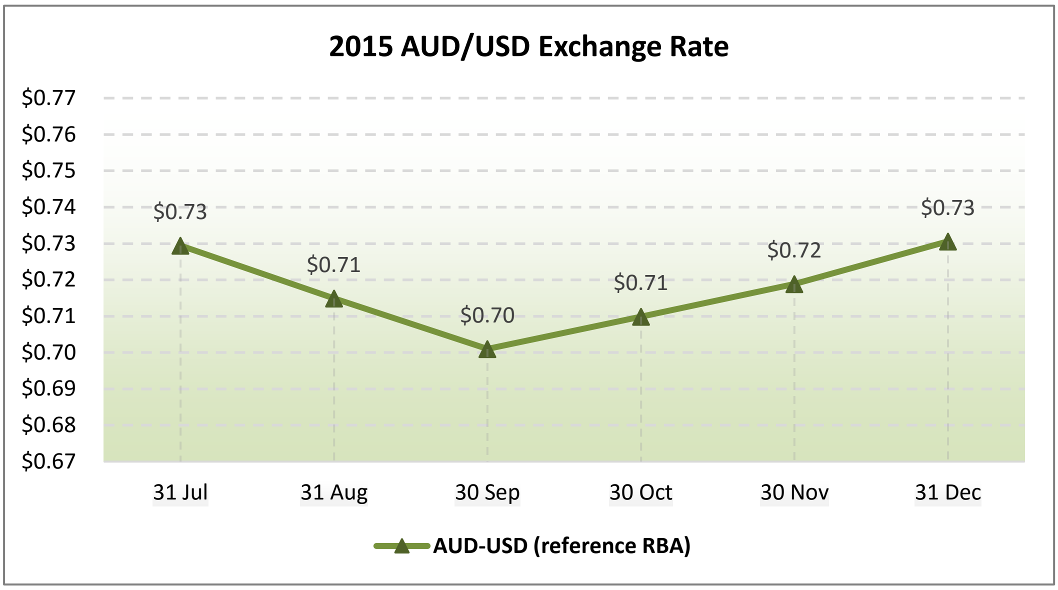
Economic growth rate and revision, 2015-2016, %

	World	OECD	US	Japan	Euro-zone	China	India	Brazil	Russia
2015*	**3.0**	**2.0**	**2.5**	**0.7**	**1.5**	**6.8**	**7.3**	**-3.0**	**-3.2**
Change from previous month	-0.1	0.0	0.0	0.1	0.0	0.0	0.0	-0.3	0.0
2016*	**3.4**	**2.1**	**2.5**	**1.2**	**1.5**	**6.4**	**7.6**	**-1.0**	**0.3**
Change from previous month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.0

**2015 estimate, 2016 forecast.*
Reference: OPEC Monthly Oil Market Report – January 2016

GLOBAL MARKET CONDITIONS

According to National Australia Bank, investor sentiment is playing an increasingly prominent role in determining short-term oil price movements. This is occurring as the global oil market becomes linked to the financial markets through futures trading and investment flows into other commodities. Open interest and managed fund activity in the oil market have increased significantly in the past 10 years and recently, the parallels between daily returns on crude futures with commodities and financial investments including the USD, S&P 500 and US bond yields, have also risen.



Reference: RBA

While US production started to ease in 3Q and 4Q of the 2015 calendar year, Saudi Arabia and Iraq were responsible for most of OPEC's output growth in 2015. Saudi Arabia is OPEC's top producer, while Iraqi output increased despite ongoing civil wars and fight against ISIS, aided by its production cost (of as low as USD10/barrel) and strong demand from China. Iraqi output reached a record level of 4.13mb/day in December and is expected to increase further in 2016. Russian crude output has also increased significantly since mid-2015 as state-owned oil companies look to improve cash flow options on the back of the sharp devaluation of the ruble.

Of note is the January 2016 lifting of sanctions against Iran by major western powers, which enables Iran to expand its oil output. While this is likely to be gradual in H1 of 2016, it is predicted to increase up to 500,000 barrels by end of H2 2016. The addition of Iran's production pushes the prospect closer that 2016 could be the third consecutive year when supply will exceed demand by 1.0mb/d.

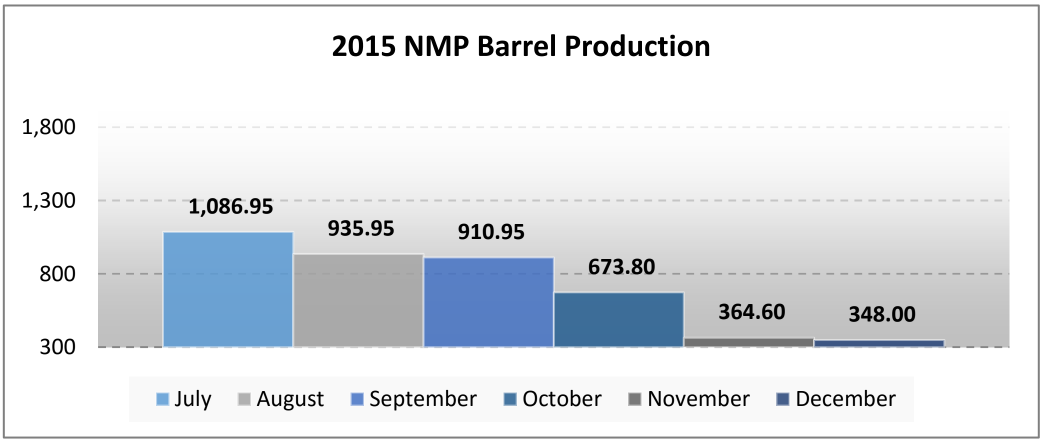
In consideration of rising global inventories and despite already significant capacity expansions, the continuing stock build will put storage infrastructure under pressure, which could provide an opportunity for floating storage.

Although a seasonably warm start to winter capped US heating demand, 2015 was still a strong year for the consumption of its refined oil products, aided by historically low pump prices and a pick-up in US economic activity.

References: OPEC Monthly Oil Market Reports, US Energy Information Administration, National Australia Bank Oil Market Update July 2015 and February 2016, Reserve Bank of Australia.

NONA MILLS PROJECT MOVING FORWARD

Oil production continues to be minimal due to the cost of operation versus the price of oil. As the price moves upwards provisions are considered for increasing production accordingly.



The first phase of the Nona Mills Project is the secondary recovery of 10 wells within section B of the field and the redevelopment plan is to workover all 10 wells. While Electronic Submersible Pumps (ESP's) were implemented as the primary method to artificially lift the wells, it was since determined that gas lift and jet pump are ideal lifting methods to combat the excessive sanding experienced in the Nona Mills formations.

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 there are no downhole moving parts and sand can be filtered at the surface without causing damage to the equipment.

The full implementation to convert the field will progress when a higher barrel price is sustained. Market conditions will be monitored to ascertain the potential for an upward motion in the value of oil in 2016.

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 July to December 2015 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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