



Biannual Report – Nona Mills Project

January 2020 – June 2020

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LETTER FROM THE DIRECTOR

The OPEC Reference Basket (ORB) value rebounded in May 2020 the first monthly increase since December 2019. The ORB rose by \$7.51 or 42.5% m-o-m to stand at \$25.17/b.

Amid the renewed optimism on the outlook of the global oil market fundamentals the Crude Oil futures prices also bounced back in May 2020. There are further expectations for a recovery of oil demand and tightening global supply.

The ICE Brent increased by 21.7% and the NYMEX WTI also soared by 70.8%. The Contango Structure of oil futures flattened over the month of June in all 3 markets, suggesting that the supply and demand fundamentals are gradually improving.



The Oil Sector members of the Declaration of Cooperation (DoC) held 3 meetings between April & June 2020 due to COVID-19 and its impact on the world economy. The OPEC Member Countries convened for the 179th Meeting of the OPEC Conference on the 6th of June 2020, on the agenda – Possible avenues to reduce market volatility and reaffirming the countries' commitment to a stable oil market. These meetings produced the largest and longest voluntary production adjustments in the history of the Oil Sector. Thanks mainly to this historic voluntary production adjustment agreement by OPEC and participating non-OPEC countries in the Declaration of Cooperation (DoC) the oil market was strongly supported by a reduction of the global crude oil surplus.

The COVID-19 pandemic has negatively affected global economic activities, eliminating global oil demand growth potential and leading to a y-o-y decline of 6.4 mb/d in 1Q20 and by 17.3 mb/d y-o-y in 2Q20. With the reduction in the demand for gasoline and jet fuels due to COVID travel restrictions in various countries, Transportation fuels are projected to be under pressure during 2020. Furthermore, decreased manufacturing activities due to lockdowns, compared with the previous year, will limit industrial fuel requirements.

Yours sincerely

Wayne Blazejczyk
DIRECTOR



OIL MARKET HIGHLIGHTS

Crude Oil Six-Month Summary

Spot crude oil prices rebounded in May from the low levels registered in April as physical market fundamentals improved significantly over the month, following the demand shock evidenced in March and April. The oil market was strongly supported by a reduction of the global crude oil surplus, thanks mainly to the historic voluntary production adjustment agreement by OPEC and participating non-OPEC countries in the Declaration of Cooperation (DoC). In May, the OPEC Reference Basket (ORB) increased by \$7.51 to \$25.17/b, on average, up 42.5%.

Crude oil futures prices bounced back in May amid renewed optimism on the global oil market outlook and expectations for a further recovery in oil demand as COVID-19-related lockdown measures were being lifted in many major economies. In May, ICE Brent rose by \$5.78, or 21.7%, to average \$32.41/b, and NYMEX WTI soared by \$11.83, or 70.8%, to average \$28.53/b. Year-to-date (y-t-d), ICE Brent was \$24.37 lower, a drop of 36.5%, at \$42.38/b, while NYMEX WTI was down by \$21.47, or 37.0%, at \$36.50/b, compared with the same period a year earlier. DME Oman crude oil futures prices rose m-o-m by \$9.77 in May, or 40.8%, to settle at \$33.69/b. Y-t-d, DME Oman was lower by \$24.56, or 36.9%, at \$41.96/b.

Hedge funds and other money managers turned increasingly positive about the crude oil price outlook and continued to raise their combined net long positions in futures and options in May for both ICE Brent and NYMEX WTI contracts, according to data from the US CFTC and ICE.

The contango structure of oil futures prices flattened considerably over May in all three main markets, suggesting that supply and demand fundamentals are being perceived to gradually move to a balance, from the unprecedented global oil surplus witnessed in March and April, even as global oil stocks remain elevated.

Sweet/sour crude differentials in May narrowed in both Asia and Europe on expectations of a tightening global sour market after the start of the OPEC and non-OPEC voluntary production adjustments, in addition to a narrow product quality spread between light and heavy distillates. However, in the USGC, the sweet/sour differential was little changed.

World Economy

The world economic growth forecast remains unchanged, declining by 3.4% y-o-y in 2020, following global economic growth of 2.9% in 2019. The major economies' forecasts remain unchanged this month, except for India. The US is forecast to contract by 5.2% in 2020, following growth of 2.3% in 2019. An even larger decline of 8.0% is expected in the Euro-zone in 2020, compared to growth of 1.2% in 2019. Japan is forecast to contract by 5.1% in 2020, comparing to growth of 0.7% in 2019. China's 2020 GDP is forecast to grow by 1.3%, following growth of 6.1% in 2019. India's forecast was revised down to decline by 0.8%, a sharp slowdown from downwardly revised growth of 4.9% in 2019. Brazil's economy is forecast to contract by 6.0% in 2020, following growth of 1.1% in 2019. Russia's economy is forecast to contract by 4.5% in 2020, after growth of 1.3% in 2019, not only due to COVID-19, but also because of the considerable decline in oil prices.

Economic Growth Rate and Revision, 2019 – 2020%*

	World	OECD	US	Euro- zone	UK	Japan	China	India	Brazil	Russia
2019	2.9	1.7	2.3	1.2	1.4	0.7	6.1	4.9	1.1	1.3
Change from previous month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.1	-0.1
2020	-3.4	-6.1	-5.2	-8.0	-8.5	-5.1	1.3	-0.8	-6.0	-4.5
Change from previous month	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	0.0	0.0

Note: * 2019 = Estimate and 2020 = Forecast.

Source: OPEC.

Reference: OPEC Monthly Oil Market Report – June 2020

After weak 1Q20 GDP growth in most economies, the slow-down of the global economy has continued into 2Q20, with large decline rates in most economies. The lockdowns across the globe led to a standstill in some important parts of the global economy.

The ongoing easing of these measures has already led to some tentative improvements, heralding the anticipated recovery, carrying over into 3Q20. However, in some emerging economies, mainly Brazil, Russia and India, the recovery is forecast to materialise somewhat later in 3Q20. Despite these developments and the magnitude of the large and continuously increasing fiscal and monetary stimulus measures, the large decline from the 1H20 will not be fully compensated for.

Downside risks continue to prevail. Beyond immediate issues related to COVID-19, debt-related issues, political disputes including Brexit and the US-China trade related issues and mounting social instability may add to a relatively long list of ongoing uncertainties. Given the fragile situation in the global economy, the recovery of the oil sector, supported by the efforts of OPEC and non-OPEC oil-producing nations to rebalance the market, is of even greater importance to further buoy global economic developments.

OECD growth for 2020 is unchanged to stand at -6.1%. In emerging economies GDP growth forecasts remain broadly unchanged this month, with the exception of India's GDP growth forecast. After a downward revision of India's 2019 GDP growth to 4.9%, from 5.3% in the previous month, the 2020 growth forecast was revised down to -0.8%, negatively impacted by the lockdown measures. This compares to the previous month's estimate of -0.2%.

Global trade, constituting a very important support factor in the global economy, remains subdued. Additionally, it seems that last-years' trade dispute between the US and China may continue, given the ongoing tensions. This, in combination with COVID-19 and an increasing tendency toward local sourcing, was certainly not helpful to this important element of the global economy. Global trade volumes declined by 4.3% y-o-y in March. This is the worst performance since the Global Financial Crisis in 2008/2009. Trade in value terms was negative as well, falling by 6.2% y-o-y in March.

Global Trade



Sources: Netherlands Bureau for Economic Policy Analysis, Haver Analytics and OPEC.

Reference: OPEC Monthly Oil Market Report – June 2020

World Oil Demand

World oil demand is projected to decrease by 9.1 mb/d in 2020, unchanged from the previous month's assessment. Total global oil consumption for the year is expected to average 90.6 mb/d.

The COVID-19 pandemic has negatively pressured economic momentum and eliminated potential for global oil demand growth. Transportation fuel is also expected to be under pressure in 2020. Lockdowns in various countries, particularly the US, Europe, India and the Middle East, are projected to reduce demand for gasoline and jet fuel, as air travel activity — in addition to reduced distances travelled — is projected to significantly decline compared with last year. A reduction in manufacturing activities compared with last year will also limit industrial fuel requirements. In addition, petrochemical feedstock is assumed to be driven by slower end-user requirements for plastics compared with previous years.

In the OECD region, oil demand is anticipated to plummet by 5.2 mb/d compared with total 2019 oil requirements, following declining indicators in the transportation sector in OECD Americas and Europe at the beginning of 2Q20.

In the non-OECD region, oil demand is foreseen to steeply decline by 3.9 mb/d for the first time on record. Oil requirements in all sub-regions, including China, Other Asia, Latin America and the Middle East, are expected to drop y-o-y in response to strict measures taken by various governments to contain the further spread of COVID-19. The impact will be felt mainly in transportation and industrial fuels, which are forecast to decline by a previously unforeseen amount.

In 2019, world oil demand growth is estimated unchanged at 0.83 mb/d, with total oil demand at 99.67 mb/d. OECD oil demand is estimated to have declined by 0.10 mb/d amid declines in OECD Asia Pacific oil requirements and weaker-than-expected oil demand growth in OECD Americas and Europe. Non-OECD oil demand is estimated to have increased by 0.93 mb/d as a result of strong demand in China and Other Asia.

World Oil Demand 2020* mb/d (Million barrels per day)

	2019	1Q20	2Q20	3Q20	4Q20	2020	Change 2020/19	
							Growth	%
World oil demand								
Americas	25.62	24.44	19.27	24.39	25.06	23.30	-2.31	-9.04
of which US	20.81	19.86	15.51	20.04	20.49	18.99	-1.82	-8.76
Europe	14.33	13.30	10.19	13.25	13.61	12.59	-1.74	-12.13
Asia Pacific	7.93	7.73	6.43	6.64	7.46	7.06	-0.87	-10.92
Total OECD	47.88	45.47	35.89	44.29	46.13	42.96	-4.92	-10.28
Other Asia	13.87	13.05	11.90	12.40	13.67	12.76	-1.11	-8.01
of which India	4.84	4.74	3.70	3.94	4.83	4.31	-0.54	-11.10
Latin America	6.59	6.20	5.81	6.24	6.15	6.10	-0.49	-7.47
Middle East	8.20	7.83	7.01	7.93	7.62	7.60	-0.60	-7.36
Africa	4.45	4.38	4.17	4.07	4.20	4.20	-0.24	-5.49
Total DCs	33.11	31.46	28.88	30.65	31.64	30.66	-2.45	-7.40
FSU	4.94	4.50	4.08	4.45	4.61	4.41	-0.43	-8.94
Other Europe	0.76	0.71	0.55	0.47	0.56	0.57	-0.19	-25.18
China	13.07	10.27	12.55	12.37	13.28	12.12	-0.95	-7.29
Total "Other regions"	18.68	15.48	17.17	17.29	18.46	17.10	-1.58	-8.45
Total world	99.67	92.41	81.95	92.22	96.22	90.72	-8.95	-8.98
Previous estimate	99.67	92.39	81.30	92.28	96.30	90.59	-9.07	-9.10
Revision	0.00	0.02	0.65	-0.06	-0.08	0.13	0.13	0.13

Note: * 2019 = Estimate and 2020 = Forecast. Totals may not add up due to independent rounding.

Source: OPEC.

Reference: OPEC Monthly Oil Market Report – July 2020

World Oil Supply

Non-OPEC liquids production growth in 2020 (including processing gains) has been revised up by 0.3 mb/d from the previous assessment and is now forecast to decline by 3.2 mb/d y-o-y, to average 61.80 mb/d in 2020. The revision was mainly due to new data estimating oil production for April and May for the non-OPEC countries participating in the Declaration of Cooperation (DoC). Increasing global crude oil prices in futures markets since the beginning of May reflect the perception of an earlier-than-expected recovery in oil demand amid a reduction in supply due to global production shut-ins. Nevertheless, it remains to be seen whether US upstream investment can recover in the short term from the current deep cuts due to the COVID-19 pandemic and subsequent drop in oil prices. Upstream investment in non-OPEC countries in 2020 is expected to decline by 30% y-o-y to \$321 billion.

Non-OPEC Supply 2020* mb/d (Million barrels per day)

Non-OPEC liquids production	2019	1Q20	2Q20	3Q20	4Q20	2020	Change 2020/19	
							Growth	%
Americas	25.74	26.62	23.99	22.34	22.45	23.84	-1.90	-7.38
of which US	18.40	19.08	17.32	15.67	15.81	16.96	-1.43	-7.79
Europe	3.71	4.03	3.93	3.94	4.06	3.99	0.28	7.64
Asia Pacific	0.53	0.53	0.57	0.59	0.59	0.57	0.04	8.45
Total OECD	29.98	31.19	28.49	26.86	27.10	28.40	-1.57	-5.25
Other Asia	3.48	3.45	3.33	3.33	3.33	3.36	-0.13	-3.67
Latin America	6.01	6.31	5.97	6.15	6.37	6.20	0.19	3.15
Middle East	3.21	3.21	3.12	3.06	3.07	3.11	-0.10	-3.06
Africa	1.53	1.51	1.49	1.45	1.45	1.47	-0.06	-3.61
Total DCs	14.24	14.48	13.91	13.99	14.21	14.15	-0.09	-0.64
FSU	14.37	14.51	12.82	12.26	12.44	13.00	-1.37	-9.50
of which Russia	11.44	11.50	10.17	9.70	9.85	10.30	-1.14	-9.93
Other Europe	0.12	0.12	0.12	0.12	0.11	0.12	-0.01	-4.32
China	4.05	4.15	4.00	3.99	4.01	4.04	-0.01	-0.35
Total "Other regions"	18.54	18.78	16.94	16.36	16.56	17.16	-1.39	-7.47
Total non-OPEC production	62.75	64.44	59.34	57.21	57.87	59.71	-3.05	-4.86
Processing gains	2.28	2.10	2.10	2.10	2.10	2.10	-0.18	-8.03
Total non-OPEC liquids production	65.03	66.54	61.44	59.31	59.97	61.80	-3.23	-4.97
Previous estimate	65.03	66.45	59.71	59.57	60.30	61.50	-3.53	-5.43
Revision	0.00	0.08	1.73	-0.26	-0.33	0.30	0.30	0.46

Note: Non-OPEC liquids production includes the Republic of Ecuador.

* 2019 = Estimate and 2020 = Forecast. Totals may not add up due to independent rounding.

Source: OPEC.

Reference: OPEC Monthly Oil Market Report – June 2020

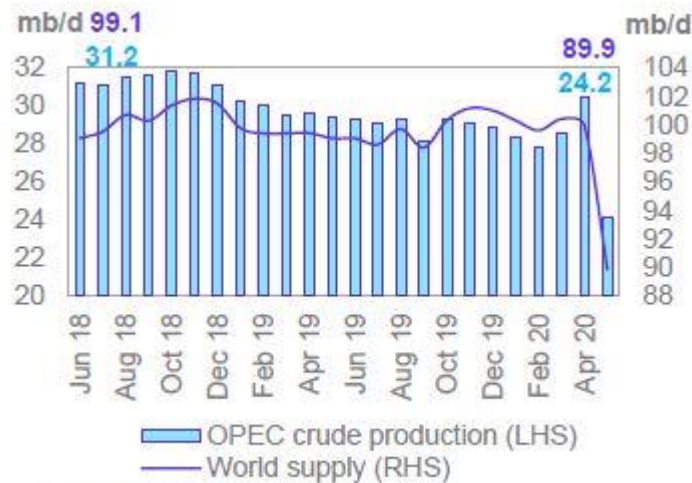
Strong conformity with the voluntary production adjustments by the 10 non-OPEC participating countries in the DoC led to a drop in output of more than 2.95 mb/d in May (preliminary), while OPEC-10 cut 6.25 mb/d m-o-m. At the same time, preliminary oil production outside of the DoC declined by 2.0 mb/d in April and 0.8 mb/d in May, mainly in the US and Canada. Oil production of these two countries is likely to decline by a total of 1.8 mb/d in 2020, y-o-y. Oil supply in 2020 is now forecast to grow only in Norway, Brazil, Guyana and Australia.

The absolute level of production of OPEC NGLs was revised up. OPEC NGLs and non-conventional liquids are estimated to have declined by 0.08 mb/d y-o-y in 2019 to average 5.26 mb/d, following growth of 0.16 mb/d in 2018. The 2020 forecast indicates a decline of 0.03 mb/d to average 5.23 mb/d.

In May, OPEC-13 crude oil production fell by 6.30 mb/d m-o-m to average 24.19 mb/d, according to secondary sources. Ten OPEC MCs have agreed to adjust down their production from May 2020.

Non-OPEC liquids production in May, including OPEC NGLs and non-conventional liquids, is estimated to have fallen by 3.74 mb/d m-o-m to average 65.69 mb/d, lower by 3.99 mb/d y-o-y. As a result, preliminary data indicates that global oil supply in May decreased by 10.04 mb/d m-o-m to average 89.89 mb/d, down by 9.18 mb/d y-o-y.

OPEC Supply mb/d
(Million barrels per day)



Source: OPEC.

Reference: OPEC Monthly Oil Market Report – June 2020

Balance of Supply and Demand

Demand for OPEC crude in 2019 was revised down by 0.5 mb/d from the previous assessment, reflecting the upward revision in OPEC NGLs and non-conventional oil. At 29.4 mb/d, demand for OPEC crude in 2019 is 1.1 mb/d lower than in 2018.

The 1Q19 was revised down by 0.4 mb/d, while the 2Q19, 3Q19 and 4Q19 were revised down by 0.5 mb/d each.

When compared with the same quarters in 2018, demand for OPEC crude in 1Q19 and 2Q19 was 1.9 mb/d and 1.7 mb/d lower, respectively. The 3Q19 and 4Q19 showed drops of 0.2 mb/d and 0.7 mb/d, respectively.

According to secondary sources, OPEC crude production averaged 30.0 mb/d in 1Q19, about 0.8 mb/d higher than demand for OPEC crude in the same period, while in 2Q19 OPEC crude production averaged 29.4 mb/d, around 0.6 mb/d higher than demand. In 3Q19, OPEC crude production averaged 28.9 mb/d, around 1.6 mb/d lower than its demand. In 4Q19, OPEC crude oil production stood at 29.1 mb/d, almost in line with its demand. For 2019 as a whole, OPEC crude oil production averaged 29.3 mb/d, in line with the demand for OPEC crude.

Balance of Supply and Demand 2019 -2020*

	2019	1Q20	2Q20	3Q20	4Q20	2020	Change 2020/19
(a) World oil demand	99.67	92.39	81.30	92.28	96.30	90.59	-9.07
Non-OPEC liquids production	65.03	66.54	61.44	59.31	59.97	61.80	-3.23
OPEC NGL and non-conventionals	5.26	5.35	5.27	5.17	5.13	5.23	-0.03
(b) Total non-OPEC liquids production and OPEC NGLs	70.29	71.89	66.70	64.47	65.09	67.03	-3.26
Difference (a-b)	29.38	20.51	14.60	27.81	31.21	23.57	-5.81
OPEC crude oil production	29.34	28.26					
Balance	-0.04	7.75					

Note: Non-OPEC liquids production includes the Republic of Ecuador.

* 2019 = Estimate and 2020 = Forecast. Totals may not add up due to independent rounding.

Source: OPEC.

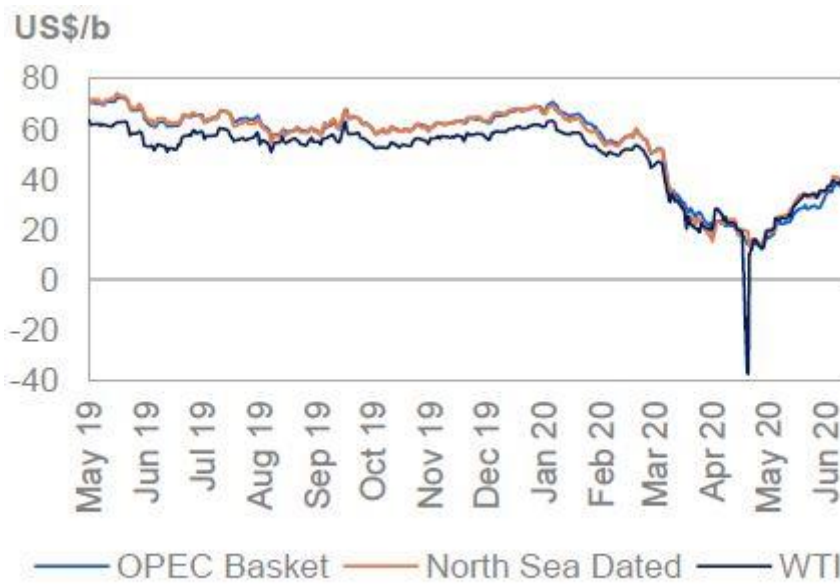
Reference: OPEC Oil Market Report – June 2020

Crude Oil Price Movements

Spot crude oil prices rebounded in May from the low levels registered in April as physical market fundamentals improved significantly over the month, following the demand shock evidenced in March and April. The oil market was strongly supported by a reduction of the global crude oil surplus, thanks mainly to the historic voluntary production adjustment agreement by OPEC and participating non-OPEC countries in the Declaration of Cooperation (DoC). In May, the OPEC Reference Basket (ORB) increased by \$7.51 to \$25.17/b, on average, up 42.5%.

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Crude Oil Price Movement



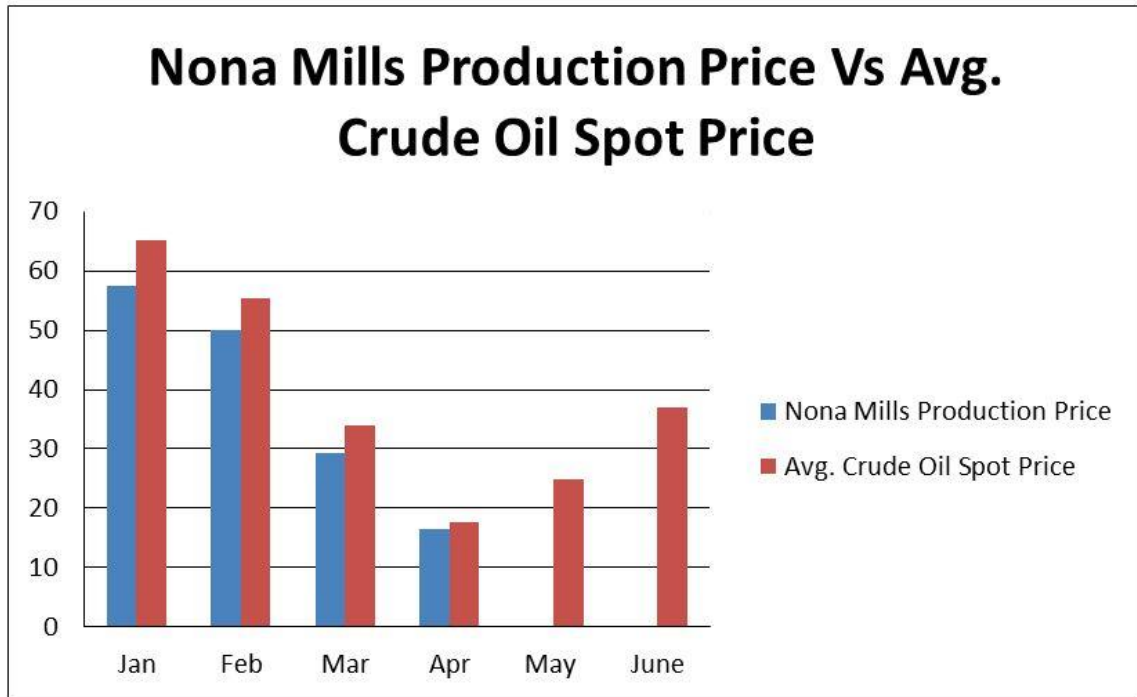
Sources: Argus, OPEC and Platts.

Reference: OPEC Monthly Oil Market Report – June 2020

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Reference: Avg. Crude Oil Spot Price – OPEC Basket Price. No Barrels were produced in May and June at the Nona Mills Fields.

The Impact of the UDS Dollar (USD) and Inflation on Oil Prices

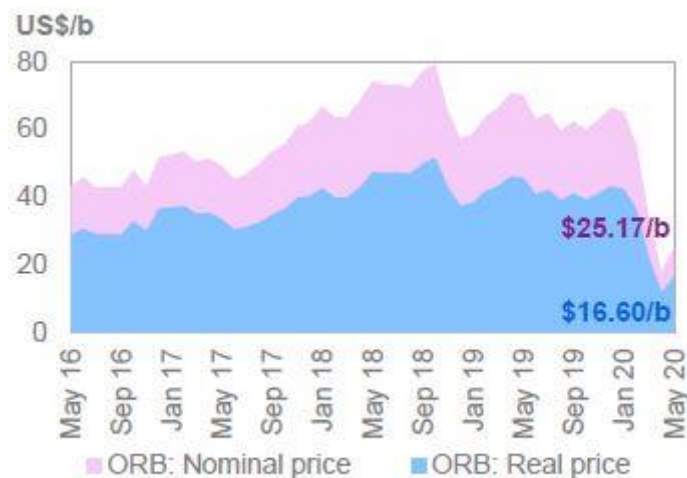
The US dollar (USD) generally declined against other major currencies during the month. The dollar decreased by 0.3% on average against the euro m-o-m, with the fall accelerating towards the end of the month on the expectation of additional fiscal and monetary stimulus in the Eurozone. The dollar fell slightly against the Swiss franc by 0.1% and by 0.6% against the Japanese yen. Against the Canadian dollar, the US dollar declined by 0.5%. On the contrary it rose against the pound sterling by 0.9%.

Meanwhile, the US dollar was mixed against Emerging Market currencies. Against the Chinese yuan, it rose by 0.4%, while against the Indian rupee the dollar dropped on average by 0.8% as financial market sentiment recovered. It declined against the Russian ruble, by 3.5%, following higher oil prices, but it rose by 6.0% against the Brazilian real on concerns about the worsening economic outlook given the impact of COVID-19. Against the Mexican peso the dollar declined by 2.5% on improving financial market sentiment, and optimism surrounding the re-opening of the US economy.

In nominal terms, the price of the ORB increased by \$7.51, or 42.5%, from \$17.66/b in April to reach \$25.17/b in May.

In real terms, after accounting for inflation and currency fluctuations, the ORB increased to \$16.60/b in May from a revised \$11.67/b (base June 2001=100) the previous month. Over the same period, the USD decreased by 0.1% against the import-weighted modified Geneva I + USD basket, while inflation increased slightly by 0.1% m-o-m.

Impact of Inflation and Currency Fluctuations on the spot ORB Price (Base June 2001 = 100)



Source: OPEC.

Reference: OPEC Monthly Oil Report – June 2020

NONA MILLS PROJECT REPORT UPDATE

The Nona Mills field operators sold half a load of oil during the first half of 2020.

The market continued to weaken in the early part of 2020 and the operator failed to maintain many of the wells and suffered technical issues. Due to these issues the operator of the Nona Mills Fields completely shutdown the site in March 2020, causing no oil barrels to be produced in the 2nd quarter of 2020.

The Coronavirus (COVID-19) has had a significant impact on the oil market and the USA, especially Texas where the Nona Mills Field is located. Texas is one of the worst impacted States with over 2.29m cases and over 35,000 deaths. In Australia we have had 28,780 cases and 909 deaths.

COVID-19 Cases for Texas



Reference: Google COVID Search Results

During the first half of 2020 we saw the first case of Coronavirus in the US confirmed on January 21, the next day the World Health Organisation (WHO) declares the outbreak an international health emergency. On January 25 Australia confirmed its first case and on March 11 WHO declares the Coronavirus outbreak a Pandemic and restrictions for the US and the rest of the world start being put in place over the next several months.

Due to the above mentioned circumstances and the ongoing Coronavirus Pandemic, the operator of the Nona Mills Fields are currently determining their plans for the property.

AMERICAN MUD WORKS (AMW) PROJECT UPDATE

Large volumes of wastewater are generated in the oil and gas industry, and current projections show that these volumes will only increase. Currently most of this wastewater is managed by disposing of it using a practice known as underground injection, where that water can no longer be accessed or used.

The limits of injection are evident in some areas, and new approaches are becoming necessary. Some states and stakeholders are asking whether it makes sense to continue to waste this water, particularly in water scarce areas of the country, and what steps would be necessary to treat and renew it for other purposes.

Due to this the United States Environment Protection Agency (EPA) has completed a stakeholder engagement effort that sought input on how the Agency, states, tribes and stakeholders regulate and manage wastewater from the oil and gas industry. In May 2019 it released a draft report that described what it heard during its engagement for this study. The EPA accepted public input on the draft report and, after considering their input, it has published a final report in May 2020.

Final Report: Summary of Input on Oil and Gas Extraction Wastewater Management Practices Under the Clean Water Act (May 2020). This can be read here <https://www.epa.gov/sites/production/files/2020-05/documents/oil-gas-final-report-2020.pdf>

The Agency is still determining what, if any, next steps should be taken regarding produced water management under the Clean Water Act.

What this means for American Mudworks (AMW) is yet to be determined.

As previously mentioned in Report #11, AMW had identified a capital partner in April 2019 that had committed to a \$10 million debt facility. Based upon this commitment, AMW anticipated that the treatment plant would be fully operational by August 2019. As of June 2020, the capital partner is still dealing with some internal issues and the funding has not been completed.

Currently there are a lot of factors creating issues for AMW, including Ownership issues, funding matters, the current low oils prices, and COVID issues that have hit the US and Texas in particular hard.

As such AMW has been put on hold until these issues can be negotiated to a beneficial outcome for all parties.



Pictured: American Mud Works Waste Treatment site, Woodsfield Ohio USA

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