Biannual Report – Nona Mills Project

July 2018 to December 2018

Issue #9

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LETTER FROM THE DIRECTOR

Continued improvement in crude oil futures was experienced throughout the majority of 2018, averaging $79.39/b in October, the highest monthly average since October 2014. However, in the following months the OPEC Reference Basket (ORB) declined by $8.39, or 12.8%, month on month (m-o-m) to average $56.94/b by December.

Oil prices in 4Q18 were pressured by concerns surrounding global oversupply and softening oil demand, amid high uncertainty about global economic growth. Nonetheless, the average ORB registered a significant increase of $17.35, or 33%, in 2018, compared with the previous year.

The second consecutive yearly rise came amid a more balanced global oil market for most of the year, which was enhanced by the voluntary production adjustments under the 'Declaration of Cooperation', as well as from a continuing general healthy global economy and steady oil demand growth in 2018.

Global economic growth predictions remain consistent at 3.5% for 2019, following estimated growth of 3.7% in 2018. The slow-down in this year's economic growth has been confirmed by indicators in the past weeks, although the trend seems to have stabilised somewhat. Support for global economic growth has come from a recovery in oil prices, possible progress in US-China trade negotiations and less ambitious monetary tightening by the Fed.

Nona Mill's partnership with American Mud Works (AMW) continues to prove optimistic. AMW has confirmed the terms for funding of a credit facility were successfully negotiated with a capital group that is well connected within the oil and gas industry in Dallas, TX, thus opening doors to a number of opportunities with prospects and ensuring progress with the construction of the sites. As such the drilling fluids plant and waste treatment site are now both operational and we expect to see revenue contributions from these in the next few months. For more information on AMW please see the details attached.

Yours sincerely

W. Blazejczyk

Wayne Blazejczyk
DIRECTOR

NONA MILLS

OIL MARKET HIGHLIGHTS

Crude Oil Six-Month Summary

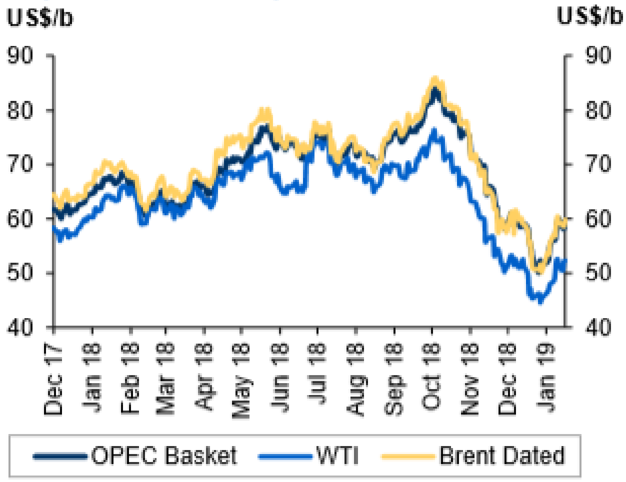
The OPEC Reference Basket (ORB) declined in December, dropping $8.39, or 12.8%, month-on-month (m-o-m) to average $56.94/b. This is the lowest level since October 2017. Oil prices were pressured by concerns surrounding global oversupply and softening oil demand, amid high uncertainty about global economic growth.

However, due to the significant high achieved in October and a steady rise throughout the majority of the year the average ORB registered a significant increase of $17.35, or 33%, in 2018, compared with the previous year. The second consecutive yearly rise came amid a more balanced global oil market for most of the year, which was enhanced by the voluntary production adjustments under the 'Declaration of Cooperation', as well as from a continuing general healthy global economy and steady oil demand growth in 2018.

Crude oil futures prices fell in November and December, despite unplanned outages in the North Sea and Libya. Oil prices continued to decline throughout 4Q18, as investors remained concerned about oil market oversupply amid rising trade tension between China and the US and signs of softer economic forecasts, which could curb global oil demand growth in 2019.

Year-to-date (y-t-d), ICE Brent is $18.48, or 35.1%, higher at $71.16/b, while NYMEX WTI rose by $15.51, or 31.1%, to $65.46/b compared to the same period a year earlier. The spread between the first-month NYMEX WTI and ICE Brent widened further by $1.60 in June to $8.62/b, the widest since the summer of 2015 on increasing US supplies.

Graph 1 - 1: Crude oil price movement



Sources: Argus Media, OPEC Secretariat and Platts.

Reference: OPEC Monthly Oil Market Report –January 2019

World Economy

Global economic growth remains unchanged from 3.5% for 2019, following estimated growth of 3.7% in 2018. The slow-down in this year's economic growth has been confirmed by indicators in the past weeks, although the trend seems to have stabilised somewhat. Support for global economic growth has come from a recovery in oil-prices, possible progress in US-China trade negotiations and less ambitious monetary tightening by the Fed.

In the Organisation for Economic Co-operation and Development (OECD), divergent growth trends have continued. Momentum in economic growth in the US continues, albeit at a slowing pace. However, this could potentially be aggravated by the government shutdown and ongoing trade frictions. With this potential downside, the 2019 growth forecast remains at 2.6%, after growth of 2.9% in 2018. Compared to the stronger momentum in the US, Euro-zone growth is forecast to continue to slow further to reach 1.7% in 2019, compared to 1.9% in 2018. After a larger-than-expected decline in 3Q18, the economic growth forecast for Japan has been revised down to 0.8% for 2018. There has also been a downward revision for growth of 1.0% in 2019. However, further downside risks to the OECD growth forecast for 2.3% in 2018 and 2.0% in 2019 remain.

In the emerging economies, the growth forecasts remain broadly unchanged. China's growth forecast remains at 6.5% for 2018 and 6.1% for 2019. India's economic growth seems to be slowing in a similar manner, remaining at 7.5% for 2018 and at 7.2% for 2019. Growth in Brazil and Russia remains unchanged as well. Growth in Brazil is forecast at 1.1% in 2018 and 1.8% in 2019. Depending on the policy actions by the new government, as well as commodity price developments, the growth forecast for 2019 may change. Russia's growth remains at 1.6% in 2018 and is forecast at 1.7% in 2019, however, this is also dependent on political developments and commodity prices.

Underlying challenges continue, causing the risk to world economic growth to be skewed to the downside. The most important issues are ongoing trade tensions, monetary tightening, particularly by the US Fed, and mounting challenges in several emerging markets and developing economies. Moreover, Brexit-related uncertainties, fiscal issues in some EU Member Country economies and Japan's envisaged sales tax increase, are posing additional risks. The growth trend in 2H19 remains particularly uncertain as the fiscal stimulus in the US is expected to taper off, China's slow-down is forecast to continue, issues in the Euro-zone are expected to remain and India will most likely face lower growth levels.

	World	OECD	US	Japan	Euro-zone	UK	China	India	Brazil	Russia
2018	**3.7**	**2.3**	**2.9**	**0.8**	**1.9**	**1.3**	**6.5**	**7.5**	**1.1**	**1.6**
Change from previous month	0.0	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
2019	**3.5**	**2.0**	**2.6**	**1.0**	**1.7**	**1.4**	**6.1**	**7.2**	**1.8**	**1.7**
Change from previous month	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0

*Note: * 2018 = Estimate and 2019 = Forecast.*

Source: OPEC Secretariat.

Reference: OPEC Monthly Oil Market Report – January 2019

World Oil Demand

For 2018, world oil demand growth was kept unchanged at 1.50 mb/d with total oil demand standing at 98.78 mb/d. This is despite an upwardly revised 3Q18, amid strong demand growth in the US counterbalanced by a downward revision to oil demand data in Q418, due to slower-than-expected oil requirements in OECD Asia Pacific and Other Asia.

Oil demand growth in the OECD region was revised marginally higher in 2018 due to better-than-expected data in OECD Americas, particularly in 3Q18, amid strong light distillate and diesel fuel performances in line with healthy petrochemical and industrial sectors. This was offset by a downward revision to OECD Asia Pacific due to weaker-than-expected oil demand in the petrochemical sector.

In the non-OECD region, oil demand growth was revised slightly lower in 2018, mainly reflecting slower momentum in Other Asia. Lower-than-expected demand from India during the month of November, due to slower construction activity, impacted demand for diesel fuel.

In 2019, world oil demand is forecast to increase by 1.29 mb/d, unchanged from the previous average 100.08 mb/d of total global demand.

In the OECD region, oil demand is anticipated to add 0.25 mb/d to 2018 total oil requirement as OECD Americas increase the most amid steady natural gas liquid (NGL) and middle distillate requirements.

In the non-OECD region, oil demand is projected to rise by 1.04 mb/d with lesser Chinese oil demand growth as compared with 2018; however, this will be counterbalanced by healthy gains in oil requirements in Latin America and the Middle East as compared to 2018 estimates.

Global Oil Demand 2019

(million barrels per day) *

							Change 2019/18	
	2018	1Q19	2Q19	3Q19	4Q19	2019	Growth	%
Americas	25.49	25.46	25.64	26.01	25.90	25.76	0.26	1.03
of which US	*20.72*	*20.82*	*20.85*	*21.14*	*21.02*	*20.96*	*0.24*	*1.15*
Europe	14.33	13.98	14.19	14.75	14.47	14.35	0.02	0.13
Asia Pacific	8.04	8.53	7.61	7.68	8.23	8.01	-0.03	-0.34
Total OECD	**47.87**	**47.98**	**47.44**	**48.44**	**48.61**	**48.12**	**0.25**	**0.53**
Other Asia	13.68	13.91	14.21	13.75	14.31	14.05	0.37	2.70
of which India	*4.74*	*5.03*	*4.93*	*4.58*	*5.18*	*4.93*	*0.19*	*4.05*
Latin America	6.53	6.39	6.53	6.87	6.52	6.58	0.05	0.81
Middle East	8.11	8.25	8.01	8.47	7.96	8.17	0.06	0.74
Africa	4.33	4.46	4.43	4.37	4.48	4.44	0.11	2.45
Total DCs	**32.64**	**33.01**	**33.19**	**33.46**	**33.27**	**33.23**	**0.59**	**1.80**
FSU	4.82	4.75	4.74	5.03	5.11	4.91	0.09	1.87
Other Europe	0.74	0.75	0.71	0.75	0.84	0.76	0.02	2.69
China	12.71	12.61	13.18	12.99	13.42	13.05	0.34	2.67
Total "Other regions"	**18.27**	**18.11**	**18.63**	**18.77**	**19.37**	**18.72**	**0.45**	**2.46**
Total world	**98.78**	**99.10**	**99.26**	**100.67**	**101.25**	**100.08**	**1.29**	**1.31**

*Note: * 2018 = Estimate and 2019 = Forecast.*
Totals may not add up due to independent rounding.
Source: OPEC Secretariat.

Reference: OPEC Monthly Oil Market Report – January 2019

World Oil Supply

Non-OPEC oil supply growth in 2018 was revised up by 0.05 mb/d from the previous report and is now estimated at 2.61 mb/d, for an average of 62.06 mb/d. The main reason for this revision was upward adjustments to historical production data in the US, Canada, Russia and China, as well as a higher supply forecast for 4Q18 by 0.19 mb/d, mainly for the US. The expected y-o-y growth of 2.20 mb/d in the US, along with higher production in Canada, Russia, Kazakhstan, Qatar, other OECD Europe and Ghana will support non-OPEC supply growth in 2018, while Mexico, Norway and Vietnam will show the largest declines.

Non-OPEC oil supply growth in 2019 was revised down by 0.06 mb/d, mainly due to a downward revision in Canada's supply forecast, to stand at 2.10 mb/d for an average of 64.16 mb/d for the year. The US, Brazil, Russia, the UK, Australia and Ghana are the main drivers for next year's growth, while Mexico and Norway are expected to see sizeable declines, along with a minor decline in Canada. The 2019 non-OPEC supply forecast is faced with many uncertainties, including changes in the intensity of drilling and completion in the US shale industry, bottlenecks in the transportation of oil in the Permian Basin and Western Canada, as well as the realization of final investment decisions (FIDs) regarding projects in other non-OPEC countries.

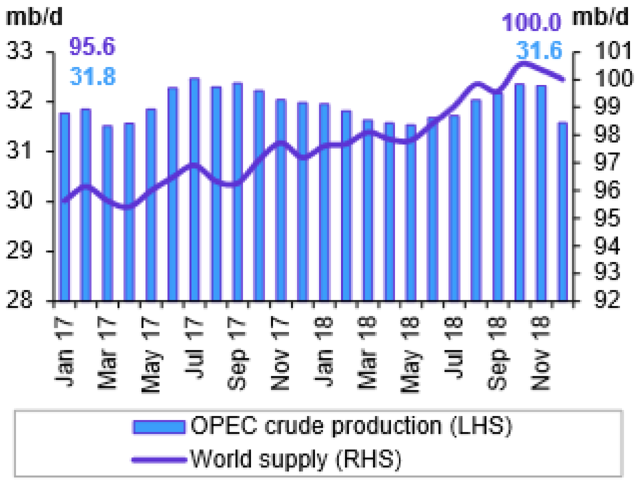
OPEC NGLs in 2018 and 2019 are expected to grow by 0.04 mb/d and 0.11 mb/d, yet at lower average levels of 4.98 mb/d and 5.09 mb/d, respectively, following the exit of Qatar from OPEC.

Non-OPEC supply preliminary data in December, including OPEC NGLs, showed an increase of 0.40 mb/d m-o-m to average 68.44 mb/d, higher by 3.24 mb/d y-o-y. However, preliminary data indicates that global oil supply decreased in December by 0.35 mb/d m-o-m to average 100.02 mb/d.

In December 2018, OPEC crude oil production decreased by 751 tb/d to average 31.58 mb/d, according to secondary sources.

OPEC Supply

(million barrels per day)



Source: OPEC Secretariat.

Non-OPEC Supply

(million barrels per day)

	2018	1Q19	2Q19	3Q19	4Q19	2019	Change 2019/18 Growth	%
Americas	23.86	24.60	24.76	25.61	26.51	25.37	1.51	6.34
of which US	*16.61*	*17.60*	*17.85*	*18.50*	*19.27*	*18.31*	*1.70*	*10.26*
Europe	3.76	3.81	3.62	3.71	3.94	3.77	0.01	0.28
Asia Pacific	0.41	0.44	0.45	0.47	0.49	0.46	0.05	13.28
Total OECD	**28.03**	**28.84**	**28.84**	**29.79**	**30.94**	**29.61**	**1.58**	**5.62**
Other Asia	3.52	3.49	3.44	3.46	3.46	3.46	-0.05	-1.53
Latin America	5.17	5.37	5.42	5.51	5.73	5.50	0.34	6.51
Middle East	3.21	3.22	3.22	3.24	3.24	3.23	0.02	0.73
Africa	1.52	1.52	1.53	1.59	1.62	1.57	0.05	3.17
Total DCs	**13.41**	**13.59**	**13.60**	**13.80**	**14.05**	**13.76**	**0.35**	**2.64**
FSU	14.29	14.53	14.36	14.38	14.51	14.44	0.16	1.09
of which Russia	*11.35*	*11.54*	*11.40*	*11.50*	*11.50*	*11.49*	*0.14*	*1.23*
Other Europe	0.12	0.12	0.12	0.12	0.12	0.12	0.00	-1.08
China	3.97	3.99	3.94	3.93	3.95	3.95	-0.02	-0.41
Total "Other regions"	**18.37**	**18.64**	**18.41**	**18.42**	**18.58**	**18.51**	**0.14**	**0.75**
Total non-OPEC production	**59.81**	**61.07**	**60.86**	**62.02**	**63.57**	**61.88**	**2.07**	**3.46**
Processing gains	2.25	2.28	2.28	2.28	2.28	2.28	0.03	1.25
Total non-OPEC supply	**62.06**	**63.34**	**63.13**	**64.29**	**65.84**	**64.16**	**2.10**	**3.38**

*Note: * 2018 = Estimate and 2019 = Forecast.*
Non-OPEC supply includes Qatar.
Source: OPEC Secretariat.

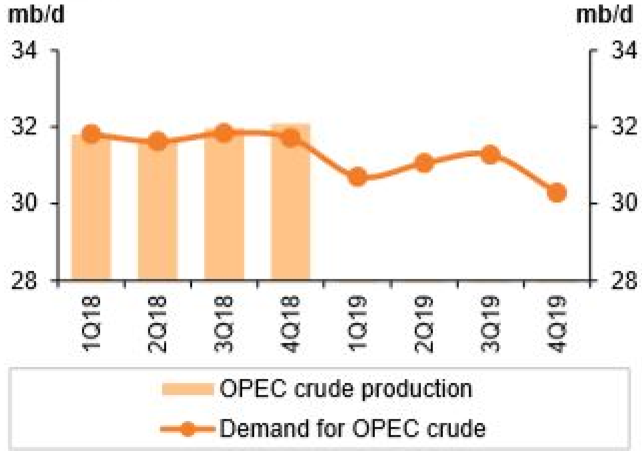
Reference: OPEC Monthly Oil Market Report – January 2019

Balance of Supply and Demand

Demand for OPEC crude in 2018 stood at 31.7 mb/d, 1.2 mb/d lower than the 2017 level. In comparison, according to secondary sources, OPEC crude production averaged 31.8 mb/d and 31.6 mb/d in 1Q18 and 2Q18, respectively, which is in line with the demand for OPEC crude. OPEC crude production averaged 32.0 mb/d in 3Q18, around 0.1 mb/d higher than the demand for OPEC crude. In the 4Q18, OPEC crude production stood at 32.1 mb/d, around 0.4 mb/d higher than the demand for OPEC crude.

Demand for OPEC crude in 2019 is forecast to decline by 0.9 mb/d to average 30.8 mb/d. When compared to the same quarter in 2018, the first and second quarters are forecast to fall by 1.1 mb/d and 0.6 mb/d, respectively, while the third and fourth quarters are expected to fall by 0.6 mb/d and 1.4 mb/d, respectively.

Graph 10 - 1: Balance of supply and demand, 2018-2019*



*Note: * 2018 = Estimate and 2019 = Forecast.*

Reference: OPEC Monthly Oil Market Report – January 2019

Crude Oil Price Movements

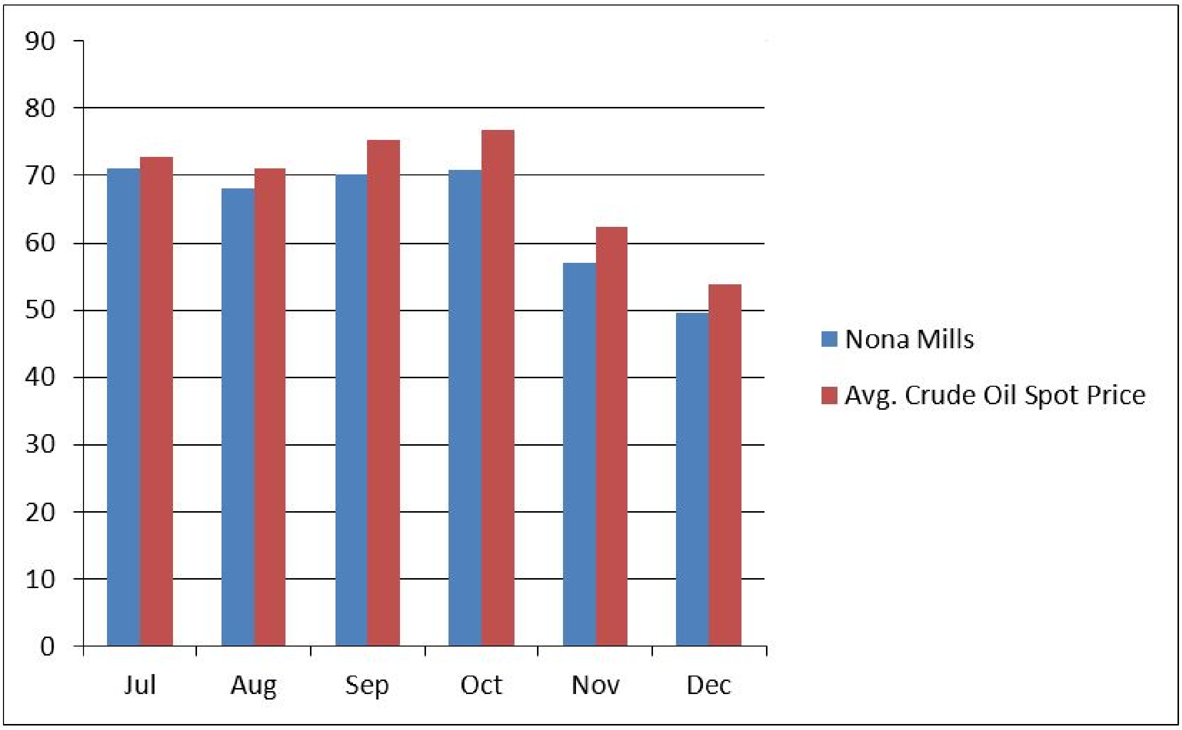
The OPEC Reference Basket (ORB) fell sharply in 4Q18, tumbling $8.39, or 12.8%, m-o-m to average $56.94/b in December, reaching its lowest monthly level since October 2017. Oil prices were pressured by concerns about global oversupply and deteriorating oil demand, amid high uncertainty about global economic growth, as well as weak refining margins. All ORB component values decreased in December, along with their respective crude oil benchmarks. For the year, the ORB value was $17.35, or 33.1%, higher at $69.78/b compared with the previous year.

Crude oil futures prices fell further in December, despite unplanned outages in the North Sea and Libya. Oil prices continued to decline throughout the month, as investors remained concerned about oil market oversupply amid rising trade tension between China and the US and signs of softer economic forecasts, which could curb global oil demand growth in 2019. In December, ICE Brent was $8.27, or 12.5%, m-o-m lower at $57.67/b, while NYMEX WTI fell by $7.71, or 13.6%, to average $48.98/b. For the year, ICE Brent is $16.96, or 31.0%, y-o-y higher at $71.69/b compared to 2017, while NYMEX WTI increased by $14.05, or 27.6%, to $64.90/b. DME Oman crude oil futures also declined m-o-m by $8.65, or 13.2%, in December over the previous month, to settle at $56.98/b. For the year, DME Oman was up by $16.63, or 31.2%, to stand at $69.88/b.

Hedge funds and other money managers cut their combined speculative net long positions, linked to both ICE Brent and NYMEX WTI by December, to reach their lowest levels in more than two years, amid worries about oil market oversupply and high uncertainty about global economic and oil demand growth.

The Brent and WTI market structures remained in contango, as the oil market continued to be concerned about market oversupply and weaker oil demand in the coming months amid a deteriorating global economic outlook. Meanwhile, the Dubai M1/M3 backwardation was little changed.

The sweet/sour differential narrowed in Europe and on the US Gulf Coast (USGC), due to a tighter supply of medium sour crudes in these regions, while the sweet/sour spread widened in Asia on softer middle distillate margins.



Exchange Rate

The USD was mixed in 2H18 against major currency counterparts. Market expectations for interest rate hikes by the US Fed in 2019 declined significantly by the end of the year amid financial market turmoil. This was also the case in Europe, where there's considerable doubt regarding a potential rate hike by the European Central Bank (ECB) in 2019 after the summer – as was previously implied by ECB communications – amid a deceleration in Euro-zone economic activity in the second half. The USD lost on average 0.1% m-o-m against the euro in December. Financial market turmoil spurred a flight to safety, weakening the dollar against the Japanese yen and the Swiss franc by 0.7% and 0.9%, respectively. In contrast, the dollar increased by 1.8% against the pound sterling amid increasing uncertainty as the March deadline to leave the European Union approaches.

Meanwhile, emerging economy currencies were also mixed. On average, the USD declined against the Chinese yuan in December by 0.7%, with the agreed delay in the imposition of further tariffs between the US and China providing support for the yuan. It decreased against the Indian rupee by 1.6% m-o-m, helped by lower oil prices.

NONA MILLS PROJECT REPORT UPDATE

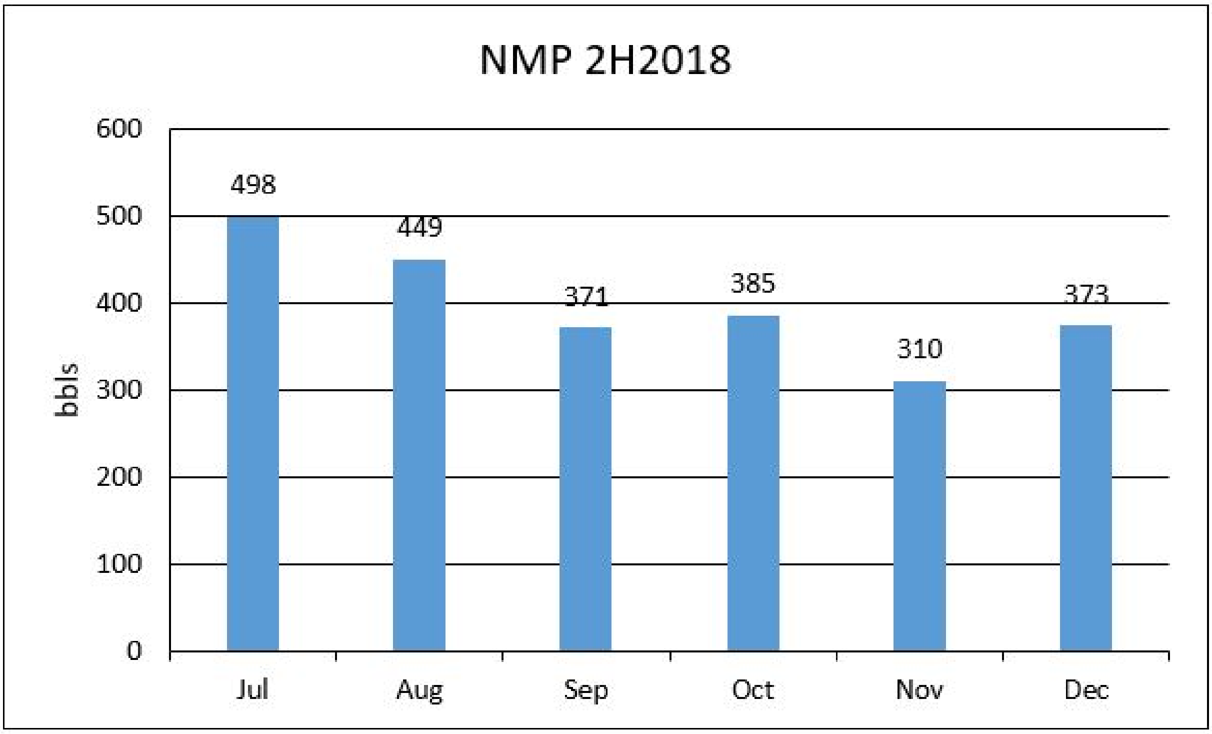
In the second half of 2018 prices continued to exceed $65/bbl, peaking in July and October to an average price of $71/bbl. However, these prices could not be sustained and dropped dramatically by the end of the year to under $50/bbl in December.

The industry believes that we will see prices remain in the $50-$55/bbl range or higher for 2019.

The Operator experienced significant issues with one of the better wells in late June. Procedures have been implemented to bring the well back up to the previous levels of production although this process is ongoing. These issues combined with incremental weather have ensured that operating costs remain very high therefore the operator saw it necessary to reduce the number of staff and minimise some maintenance costs, and as a result expenses were down 25% in the last quarter of 2018.

With all this taken into consideration the net investor revenue of the Nona Mills Project additionally takes 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 2018 operational costs exceeded the investment, so on a month by month reconciliation there were no royalties payable.



AMERICAN MUD WORKS PROJECT UPDATE

Recently American Mud Works (AMW) has engaged a capital group located in Dallas, TX who is a big player in the oil and gas industry, is well versed in the Utica and Marcelles play and understands the opportunity AMW has at hand, to secure funding for a revolving line of credit (RLOC) and construction loan. The total raised will be $10 million which will enable AMW to finance the inventory needed for the drilling fluids produced and provided to the operators plus facilitate the completion of the water/mud treatment plant.

Every new rig that is committed to AMW requires approximately $500,000 per month in raw products necessary to make the drilling mud the operator will need for three wells and $500,000 per month for chemicals that are delivered to the rig to keep the mud up to spec during the drilling process. For example, a commitment of 3 rigs, will require a $3 million cash outlay. With the margins that the drilling fluids facility makes, AMW gets ahead cash wise in about 6 months; but in the mean-time, access to a credit facility is necessary.

Effective 28 March, 2019 AMW agreed to terms with the capital group. As the AMW management team worked through due diligence on this group, it was discovered that they have access to top management in several of the companies that AMW has targeted in Utica and Marcelles, this became the key reason for selecting this group as a strategic financial partner. AMW has now been able to engage in talks with multiple prospects, securing a contract to provide mud to Jay Bee Oil and Gas and opening conversations with Tug Hill.

What does all of this mean to AMW?

- With the RLOC we can accelerate our acquisition of drilling fluids customers.
- This funding ensured there was no delays in the construction of the waste treatment plant attributed to capital needs.

- This funding allows AMW an opportunity to negotiate better terms when purchasing product used in our processes - we can now buy in bulk.
- The funding group will begin introducing AMW into the boardrooms of several operators in the region.

In April 2019 a break in the weather enabled construction of the Water/Mud Waste Treatment site be completed. This means that both the drilling fluids plant and waste treatment site are now fully operational and we expect to see revenue contributions from these in the next few months.

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

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