Biannual Report – Nona Mills Project

July 2016 to December 2016

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LETTER FROM THE DIRECTOR

It was a slow start to the second half of the year, but 2016 ended on a more positive note with December recording the first time the oil price broke $50/bbl in 18 months. This milestone was keenly felt worldwide and of course by the Nona Mills Project. In addition, production of the NMP reached its highest point since June 2015, and if prices continue upwards, the field may soon return to greater levels of operation and therefore profitability.

Throughout Q3 and Q4 the fluctuations of the oil market persisted with the last quarter undergoing a roller coaster of pricing. It took the Extraordinary meeting of OPEC on 28 September, with news that excess stock levels were being addressed, to create the first surge in pricing into double digits. While this outcome was encouraging, uncertainty surrounding the implementation soon followed and a jump in OPEC supply in response to the proposed production cuts again resulted in record levels. This coupled with the unexpected result of the US Presidential election on 08 November and the strength of the US dollar led to a slide in prices that almost wiped out the gains from the previous month.

The OPEC Agreement was ratified on 30 November 2016 and on 10 December, 11 non-OPEC countries, including Russia, also agreed to reduce output. When these historic announcements were confirmed, the sector reacted with prices rising almost 20% to reach the 18-month high of $51.67/bbl. This places 2017 in the best position yet to trade above $50/bbl, and for 2018 to see the resurgence of investment in the industry along with more favourable economic conditions.

The impact of the OPEC production cap was by far the dominating issue of the period and the next six months will be closely watched and analysed. It is hoped that this is the turning point we've all been waiting for, so that the market can rebalance and the industry can stabilise its future. There are still other conditions that impact pricing and production including demand growth and the impact of a strengthening US dollar.

The USA is still the world's largest oil producing country, but after a fall in output in 2016, it's possible the US will step up its production. This could be a stronger consideration given the supply ceiling promised by OPEC and Russia.

Yours sincerely

W. Blazejczyk

Wayne Blazejczyk
DIRECTOR

OIL MARKET HIGHLIGHTS

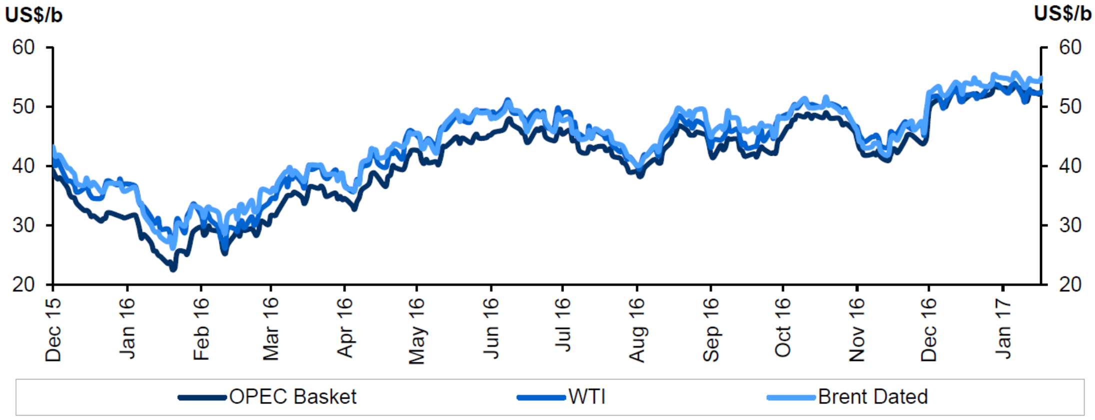
Crude Oil Price Movements: six-month summary

December capped off six months of volatility but ended on a high to exceed $50/bbl for the first time in 18 months, at $51.67/bbl. The jump of almost 20% was the highest since March and at $8.45/bbl was the largest dollar gain in five years since March 2011.

The price surge was a result of the historic step by OPEC to draw down excess stock levels. The Agreement set a maximum output of 32.5mb/d, down 1.2mb/d from the current average, with Russia also committing to a reduction, effective 1 January 2017. While initially operative for six months, it extends for a further six months as necessary.

In contrast, the most significant deterioration in oil prices in more than a decade saw the yearly average value drop to a 12-year low of $40.76/bbl, amid an overwhelming oversupply of crude oil. It slid 17.6% from the $49.49/bbl yearly value of 2015. Oil futures were also at 12 year lows with ICE Brent averaging $45.13/bbl and NYMEX WTI $43.47 for the year, to close 16% and 11% lower respectively.

Crude oil price movement



Sources: Argus Media, OPEC Secretariat and Platts.

Graph: OPEC Monthly Oil Market Report – January 2017

By February 2017, Macquarie had lowered its forecast to reflect the current conditions, with oil prices moving higher as 2017 progresses. It suggests the price pullback in 2018 could fall back into the low $50 range or even the mid-to-low $40 range for a short period. Surpluses will persist longer than deficits and reduce average prices in the process.

Brent-WTI price averages

		2017	2018	2019	Long-Term
BRENT	New	$57.25	$55.75	$60.63	$70.00
	Previous	$61.25	$67.75	NA	$74.00
	Change	($4.00)	($12.00)	NA	($4.00)
WTI	New	$55.13	$52.50	$56.63	$65.00
	Previous	$56.30	$61.75	NA	$65.00
	Change	($1.18)	($9.25)	NA	$0.00

Sources: NYMEX CME, Macquarie Securities (USA), February 2017
Graph: Macquarie Research, Market Outlook, February 2017

World Economy

The economic growth dynamic made positive gains in H2 and the momentum is forecast to continue in 2017. Although the GDP growth estimate for 2016 remained static from the previous biannual report, it’s forecast to rise 0.1% in 2017, from 3.1% to 3.2%.

In 2017, the OECD economies of US, Japan and the Euro-zone have seen improvements to their forecast growth, with overall OECD growth revised up from 1.7% to 1.8%. A continued rebalancing of the oil market through the OPEC Agreement could lift growth further, and may lead to improvements in the output of producer economies.

The Euro-zone’s 2016 economic performance was supported by healthy domestic demand, while exports are benefitting from the relatively weak euro. Germany remains a dominant geographic region and is a significant portion of the Euro-zone’s economy. With elections in the Netherlands, Italy, France and Germany, the economic situation will continue to be influenced by political developments.

The UK performed better than expected with robust developments during H2, 2016. Exports benefited from a weakening pound and domestic consumption held up well. However, the looming exit of the UK from the EU is expected to negatively impact the economy in 2017, with a downward revision of 0.6% against the previous report, which contributes to the smaller overall percentage increase of the OECD economies.

The US economy is experiencing healthy growth with improvements in the labour market, rising inflation and indicators that point at rising output for 2017. While 2016 dropped 0.4 percentage points based on the last report, 2017 is forecast for 0.1% growth to 2.2%.

Monetary policy decisions will bear considerable weight in global economic growth. Given the inflationary support and the rebalancing of the oil market, it’s expected the normalisation of US Federal Reserve monetary policy will continue in 2017.

China’s 2016 estimate showed modest growth of 0.2%, with 0.1% forecast for 2017. India’s growth in 2016 and 2017 contracted slightly to 7.2% and 7.1% respectively after the removal of large denominated bills caused some dampening of domestic consumption. After two years of recession, Russia is expected to come out of it in 2017 with 0.2% growth, which Brazil is languishing at 0% growth in both 2016 and 2017.

Economic growth rate and revision % 2016-2017

2016	WORLD	OECD	US	JAPAN	EURO ZONE	UK	CHINA	INDIA	BRAZIL	RUSSIA
Estimate	3	1.7	1.6	1	1.6	2	6.7	7.2	-3.4	-0.5
Previous	3	1.8	2	0.7	1.5	1.5	6.5	7.5	-3.4	-1
Difference	0	-0.1	-0.4	0.3	0.1	0.5	0.2	-0.3	0	-0.5

2017	WORLD	OECD	US	JAPAN	EURO ZONE	UK	CHINA	INDIA	BRAZIL	RUSSIA
Forecast	3.2	1.8	2.2	1.1	1.4	1.1	6.2	7.1	0.4	0.9
Previous	3.1	1.7	2.1	0.8	1.2	1.7	6.1	7.2	0.4	0.7
Difference	0.1	0.1	0.1	0.3	0.2	-0.6	0.1	-0.1	0	0.2

Reference: OPEC Monthly Oil Market Report – July 2016, January 2017

World Oil Demand

A two-year low in global demand in Q3 was overridden by strong Q4 demand, which pushed the 2016 global growth estimate up to 1.5 mb/d. This was still below the peak of 2.0 mb/d seen in 2015, resulting from the dramatic drop in oil prices. Most of the 2016 increase was fuelled by stronger Northern European, Russian and Asian demand including a resurgence in industrial activity, cold winter conditions and high vehicle sales. Europe experienced two years of year-on-year growth following nine years of flat or declining demand. Despite many OECD countries experiencing positive results, the USA was weaker as gasoline demand growth turned negative after four years of strong gains.

In 2017, global demand is forecast to fall to 1.3 mb/d, which is still above the 16-year average to date of 1.2 mb/d and closer to the five-year trend of 2011-15. The prospect of higher prices and a stronger US dollar are factors of the reduced outlook. The steady growth experienced by China is set to slow as the Chinese economy shifts towards more service-oriented and less manufacturing-based industries. In its place, India emerges as a key driver supporting global crude demand growth.

According to the EIA, mandatory fuel economy standards that provide energy efficiency and performance measures now cover around 74% of global passenger vehicle sales. Without these standards, global oil demand would have been 2.3 mb/d higher in 2015. This is 2.5% of global oil supply and would be the 12th ranked old producing country in the world, similar to Nigeria or Brazil.

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	4.1	4.1	4.2	4.2	4.1	4.2	4.2	4.3	4.3	4.2	4.4	4.3
Americas	31.1	31.2	31.8	31.3	31.4	31.0	31.1	31.8	31.0	31.2	30.9	31.1	31.6	31.3	31.2
Asia/Pacif ic	32.3	31.7	31.6	32.7	32.1	33.3	32.8	32.3	33.9	33.1	34.3	33.5	33.4	34.6	34.0
Europe	14.1	14.2	14.9	14.4	14.4	14.3	14.6	15.1	14.6	14.7	14.5	14.8	15.1	14.5	14.7
FSU	4.4	4.6	4.8	4.7	4.6	4.7	4.6	5.0	5.0	4.8	4.7	4.8	5.1	5.0	4.9
Middle East	7.9	8.6	8.9	8.4	8.4	8.0	8.5	8.9	8.4	8.5	8.2	8.6	9.0	8.6	8.6
World	**93.8**	**94.4**	**95.9**	**95.7**	**95.0**	**95.4**	**95.9**	**97.2**	**97.3**	**96.5**	**96.9**	**97.2**	**98.4**	**98.5**	**97.8**
Annual Chg (%)	1.7	2.3	2.9	1.7	2.1	1.7	1.6	1.3	1.7	1.6	1.5	1.3	1.3	1.2	1.3
Annual Chg (mb/d)	1.6	2.1	2.7	1.6	2.0	1.6	1.5	1.2	1.6	1.5	1.4	1.3	1.3	1.2	1.3
Changes from last OMR (mb/d)	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.3	0.2	0.1	0.1	0.1	0.2	0.1

* Including biofuels

Graph: IEA Oil Market Report – 19 January 2017

World Oil Supply

World supply was up 0.3 million barrels per day from 2015, as record OPEC output more than offset 0.9 mb/d decline in non-OPEC.

OPEC crude oil production averaged 32.9 million b/d in 2016, an increase of 0.8 million b/d from 2015, led by rising production in Iran, Iraq and Saudi Arabia, which captured the largest supply expansion of 690 kb/d, 410 kb/d and 260 kb/d respectively. This followed five months of record growth from June to November to an unprecedented 32.6 mb/d, up 970 kb/d. In contrast, Nigeria and Venezuela both experienced domestic disruptions with annual crude output plunging to near 30-year lows in both countries.

Forecast OPEC production rises by 0.3 million b/d in 2017, led by Iran and Libya, which are not covered in the OPEC Agreement, along with increases from Iraq.

While Russia's output broke post-Soviet records numerous times in 2016, non-OPEC oil supply averaged 57.6 mb/d in 2016, declining 0.9 mb/d on 2015. In 2017, non-OPEC supply is forecast up 0.12 mb/d, or 385 kb/d in 2017, as the OPEC ceiling influences higher prices and stimulates increased investment, particularly in the US. According to the EIA, production growth for 2017 is anticipated from USA, Brazil and Russia, although Russia's production will decline, largely due to its agreement to restrain output.

US crude oil production was estimated at 8.9 mb/d in 2016 and is forecast to average 9 mb/d in 2017, an increase of 320 kb/d. The growth is anticipated in offshore Gulf of Mexico production as well as rising tight oil production from greater drilling activity, rig efficiency and well-level productivity. US crude output is forecast at 9.3 mb/d in 2018.

OPEC Supply

(million barrels per day)

	Oct 2016	Nov 2016	Dec 2016	Sustainable Production	Spare Capacity	2016 Average Supply	OPEC Adjustment	Supply Target From Jan 2017
Algeria	1.13	1.12	1.13	1.13	0.00	1.11	-0.05	1.04
Angola	1.51	1.69	1.65	1.78	0.13	1.71	-0.08	1.67
Ecuador	0.54	0.55	0.54	0.56	0.02	0.55	-0.03	0.52
Gabon	0.22	0.23	0.23	0.23	0.00	0.23	-0.01	0.19
Iran	3.82	3.75	3.72	3.75	0.03	3.54	0.09	3.80
Iraq	4.59	4.61	4.64	4.66	0.02	4.41	-0.21	4.35
Kuwait	2.93	2.83	2.81	2.93	0.12	2.88	-0.13	2.71
Libya[3]	0.51	0.58	0.62	0.65	0.03	0.39		0.53
Nigeria[3]	1.43	1.50	1.39	1.70	0.31	1.46		1.63
Qatar	0.63	0.65	0.63	0.67	0.04	0.65	-0.03	0.62
Saudi Arabia	10.56	10.64	10.48	12.20	1.72	10.42	-0.49	10.06
UAE	3.12	3.13	3.13	3.14	0.01	3.03	-0.14	2.87
Venezuela	2.15	2.13	2.12	2.20	0.08	2.24	-0.10	1.97
Total OPEC	**33.14**	**33.41**	**33.09**	**35.60**	**2.51**	**32.62**		**31.96**
(excluding Nigeria, Libya)					**2.17**		**-1.16**	

Non-OPEC Supply

(million barrels per day)

	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17	2Q17	3Q17	4Q17	2017
Americas	20.0	19.9	19.0	19.3	19.4	19.4	19.5	19.5	19.8	19.9	19.7

Europe	3.5	3.6	3.4	3.3	3.6	3.5	3.6	3.5	3.3	3.5	3.5
Asia Oceania	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.4
Total OECD	23.9	24.0	22.8	23.1	23.5	23.4	23.5	23.4	23.6	23.9	23.6
Former USSR	14.0	14.3	14.0	14.0	14.5	14.2	14.4	14.2	14.3	14.5	14.4
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	4.1	3.9	3.9	4.0	3.9	3.8	3.8	3.7	3.8
Other Asia	3.6	3.6	3.6	3.5	3.5	3.6	3.5	3.5	3.5	3.4	3.5
Latin America	4.6	4.4	4.4	4.6	4.6	4.5	4.6	4.6	4.7	4.7	4.7
Middle East	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.3	1.2
Africa	2.1	2.0	1.9	2.0	2.0	2.0	1.9	1.9	2.0	2.0	2.0
Total Non-OECD	30.0	29.8	29.4	29.4	29.9	29.6	29.6	29.4	29.7	29.8	29.6
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	2.3	2.3	2.0	2.5	2.8	2.5	2.5
Total Non-OPEC	58.4	58.0	57.0	57.5	57.9	57.6	57.4	57.6	58.4	58.4	58.0
Annual Change (mb/d)	1.5	-0.1	-1.3	-1.1	-0.9	-0.9	-0.5	0.6	0.9	0.5	0.4
Changes from last OMR (mb/d)	0.0	0.0	0.0	-0.2	0.0	0.0	0.1	0.0	0.2	0.3	0.1

Graphs: IEA Oil Market Report – 19 January 2017

Crude Oil Price Movements: Month by month review

The OPEC Reference Basket (ORB) fell for the first time in five months in **July**, averaging $42.68/bbl for the month, a drop of $3.16 or 6.9%. Crude oil futures were down with ICE Brent dropping $3.39 to $46.53/bbl. Nymex WTI lost $4.05 to average $44.80/bbl. The Brent-WTI spread widened to $1.75bbl.

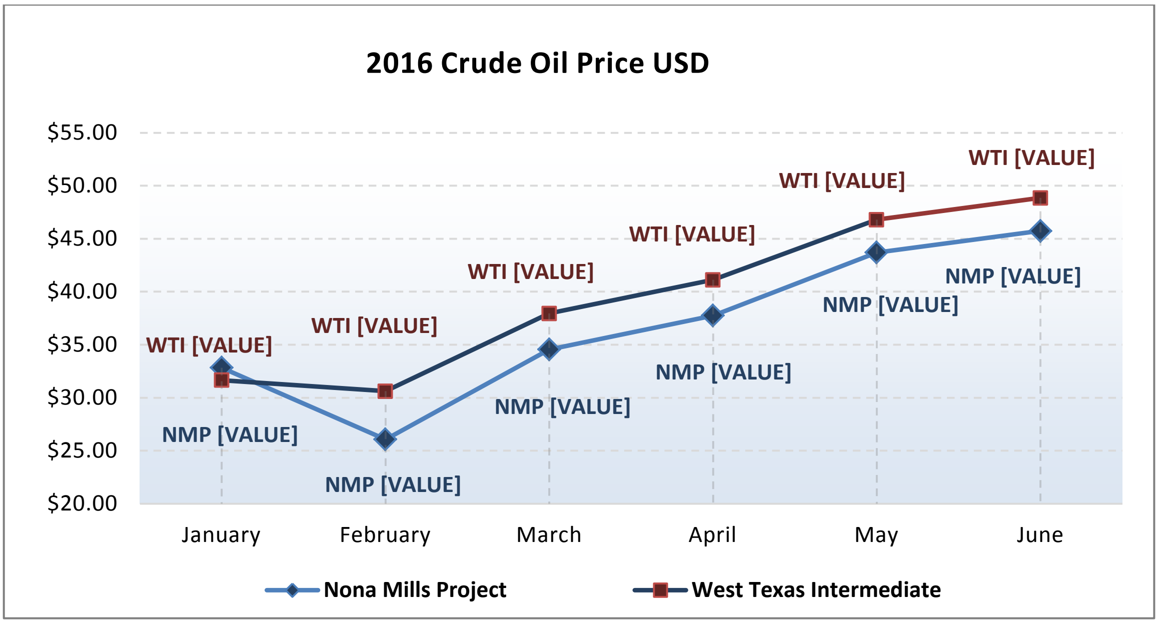
In **August**, the ORB made a slight recovery of $.42c to settle at $43.10/bbl, which was still a decline of around 30% year-on-year. Oil futures were mixed with ICE Brent up $.62c to $47.16/bbl while Nymex WTI was unmoved at $44.80/bbl. The Brent-WTI spread widened further to $2.36bbl.

The market fell slightly again in **September**, dropping $.21c to $42.89/bbl although the quarter still finished 40% higher than the record low 1Q 2016. Crude oil futures just made it into the positive with ICE Brent up $.8c to $47.24bbl and Nymex WTI increasing $.43c to reach $45.23/bbl. The Brent-WTI spread narrowed slightly to $2.01/bbl.

October achieved a steady rise of $4.98 or 11.6% to average $47.87/bbl. Oil futures also surged with ICE Brent breaking $50/b to reach $51.39/bbl, an increase of $4.15 and Nymex WTI gained $4.71 to $49.94/bbl. The Brent-WTI spread narrowed to $1.45/bbl.

Market volatility returned in **November**, with the ORB dropping 9.7% or $4.65 to $43.22/b and almost wiping out the gains from the previous month. ICE Brent was down $4.31 to $47.08/b and NYMEX WTI fell $4.18 to $45.76/b. The Brent-WTI spread averaged around $1.30/b.

December finished with 19.8% jump up $8.45 to $51.67/b, ending above $50/b for the first time in 18 months. In contrast, the Basket's yearly average value came in at its lowest in more than 12 years at $40.76/b. ICE Brent ended $7.84 higher at $54.92/b, while NYMEX WTI soared $6.40 to $52.17/b.



Reference: OPEC Monthly Oil Market Report – July 2016

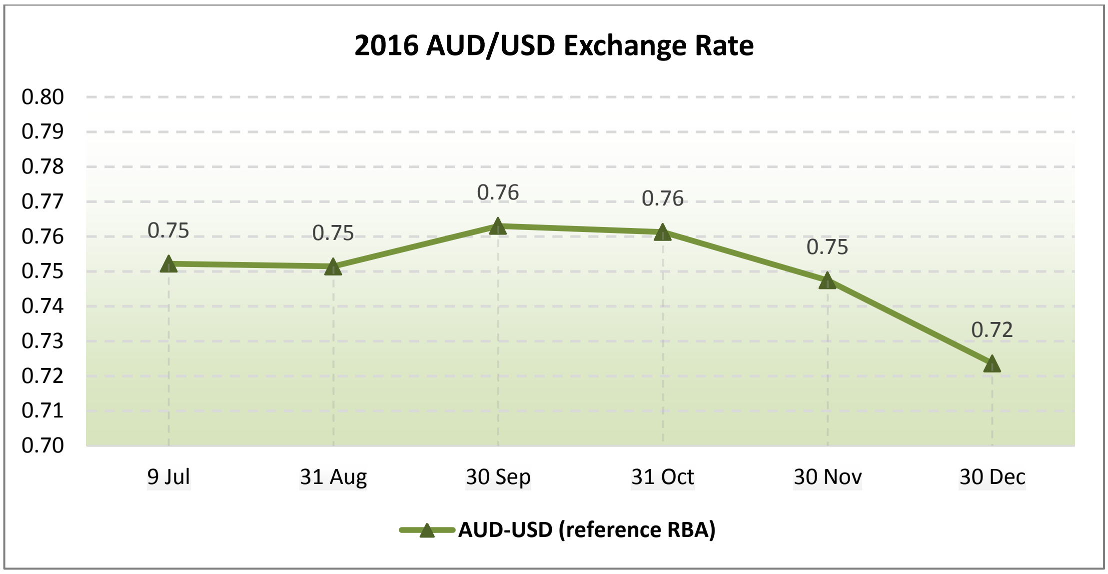
GLOBAL MARKET CONDITIONS

OPEC comments that the supply ceiling may turn out to be supportive for a normalisation of monetary policies by major central banks, in 2017. The faster rebalancing of the oil market is likely to lead to healthier inflation levels in major economies and to advances in global economic growth.

Key to this is further improvement in the OECD economies, expected recovery in Russia and Brazil and continued high growth levels in both China and India. Combined, they could put central banks in a better situation to gradually reduce the monetary stimulus that has been the main factor of the global economic recovery since 2008/2009. While the US Federal Reserve has been tightening monetary supply since 2015, the European Central Bank and other central banks are likely to continue their monetary stimulus in the short term.

Rising US interest rates could foster increased capital outflows from emerging and some other economies, therefore lowering economic activity, especially in emerging countries and limiting oil demand growth. Capital outflows are usually accompanied by increased speculative activity, potentially impacting oil price volatility in the short-term. At the same time, an increase in US dollar interest rates negatively affects oil industry investments by making them costlier. This also raises the cost-of-carry for oil inventories, although the impact on stock levels will depend on the shape of the futures curve.

The US dollar achieved its fourth consecutive year of gains against its six major rivals, in 2016. The expectation of higher-yielding US dollar-denominated investments in 2017, may support further strengthening of the dollar, which will contrast to reduce oil prices.

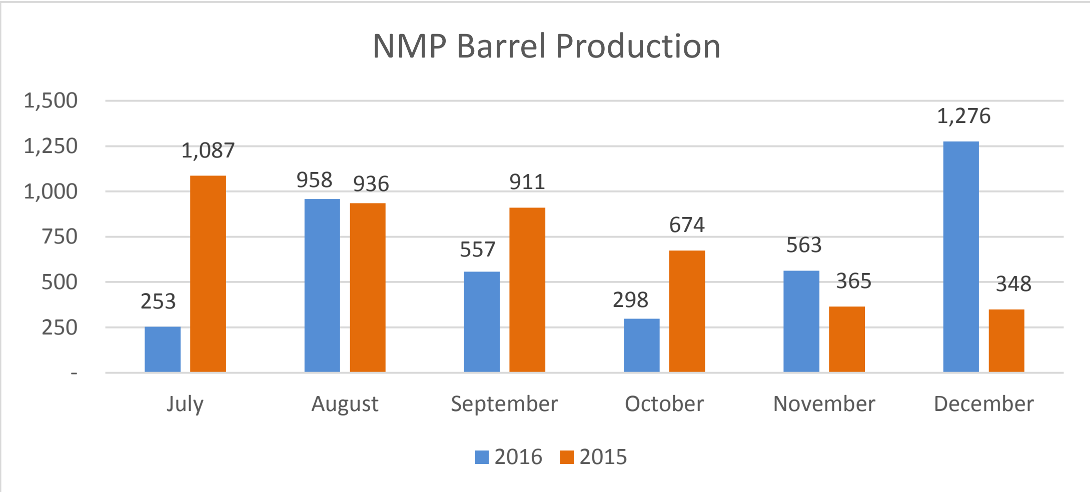


Report References: OPEC Monthly Oil Market Reports –July 2016 to February 2017, US Energy Information Administration Medium Term Energy Efficiency Market Report – 2016, US Energy Information Administration Short Term Energy Outlook – January 2017, International Energy Agency Oil Market Report – 19 January 2017, Macquarie Research Global Integrated Oil report – 2 February 2 017, Macquarie Research Market Outlook – February 2017

NONA MILLS PROJECT MOVING FORWARD

Following some material maintenance to one of the key wells in the last month of Q2, the second half of 2016 started slowly, off the back of the first drop in prices for five months.

Throughout Q3 and Q4 there were largely four wells in operation. Average output fluctuated between 12 barrels per day in July up to almost 180 barrels daily in December. The surge in pricing in December contributed to the highest monthly production for the Field in 12 months, but the period still fell short against H2 2015. The yield generated 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 July to December 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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