Biannual Report – Nona Mills Project

July 2017 to December 2017

Issue #7

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LETTER FROM THE DIRECTOR

Oil futures improved markedly in 2017 to exceed $50/b, spurred by strong demand and declining global inventories. Thoughts within the industry suggest that these gains indicate that the global glut that has dogged the market since 2014 is shrinking.

Earlier this year, oil prices slumped on concerns that rising crude production from Nigeria, Libya and elsewhere would undermine output adjustments under the DoC. However prices have rallied nearly 50% since the middle of the year on robust demand and strong conformity with the production reduction.

In December oil futures improved further to levels not seen since late 2014, with the ICE Brent and NYMEX WTI contracts continuing to be supported by growing indications that the oil market is heading smoothly toward rebalancing, lower crude oil stocks, healthy demand and geopolitical tensions.

The positive outcome of end-November decision between OPEC and non-OPEC producing countries to extend the declaration to the end of 2018 as well as supply turbulences in the North Sea buoyed the sustained gains in oil futures through Q4. We believe this to be a positive outcome.

World economic growth for 2018 remains forecast at 3.4%, mirroring the 2017 year's prediction. This level of growth is expected to stabilise the oil market and steadily increase demand over the foreseeable future.

The US Federal Reserve acknowledged the general improvements in the US economy and pointed at a continuation of its normalisation of monetary policies in the latest December meeting. The potentially rising deficit may require the Federal Reserve to raise interest rates quicker than currently anticipated in the near future however when and if this occurs is unknown.

We at Nona Mills believe that the continued rebalancing of the market is a positive thing and have an optimistic outlook for returns in the future.

Yours sincerely

W. Blazejczyk

Wayne Blazejczyk
DIRECTOR

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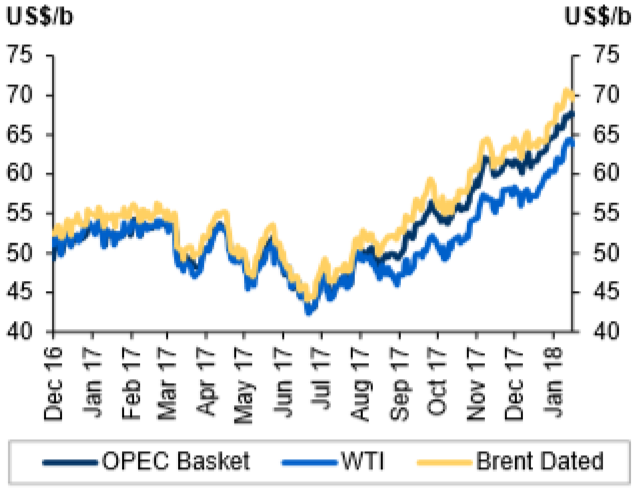
OIL MARKET HIGHLIGHTS

Crude Oil Price Movements: six-month summary

The OPEC Reference Basket (ORB) rose for the sixth consecutive month to average $62.06/b by the end of 2017. Year-to-date (y-t-d), the ORB ended 2017 significantly higher at $52.43/b, up by 28.6%, or $11.67/b, compared to the previous year. Oil prices have received wide-ranging support from production adjustments under the Declaration of Cooperation (DoC), which started in January 2017, as well as from strong economic and demand growth and healthy financial markets, which has helped improve market fundamentals significantly. US commercial crude inventories fell by 7.4 mb in the week to 29 December, to 424.5 mb, according to data from the Energy Information Administration (EIA). That is down 20% from peaks last March.

In December, oil futures improved further to levels not seen since late 2014. ICE Brent averaged $1.23 higher, at $64.09/b, while NYMEX WTI increased $1.28 to average $57.95/b. For the year, oil futures improved markedly in 2017, exceeding $50/b. Accordingly, ICE Brent rose $9.61, or 21.3%, higher at $54.74/b, while NYMEX WTI also increased by $7.39, or 17.0%, to $50.85/b. The ICE Brent/NYMEX WTI spread narrowed slightly to $6.15/b, to remain at its widest since mid-2015, supporting US crude exports to Europe and Asia. For the year, the spread more than doubled from $1.66/b in 2016 to $3.88/b in 2017.

Graph 1 - 1: Crude oil price movement



Sources: Argus Media, OPEC Secretariat and Platts.

Reference: OPEC Monthly Oil Market Report –January 2018

World Economy

The global GDP growth forecast remains at 3.7% for both 2017 and 2018. The momentum in the global economy continues with an ongoing synchronized expansion across the world. Despite the already-high global economic growth level, some further slight upside may materialise, if the ongoing growth trend continues, particularly in the OECD. Strong 2H17 US growth dynamic – in combination with the US tax bill – along with solid growth in the Euro-zone and in Japan support the OECD growth trend in 2018, after already better-than-expected GDP growth in 2017. OECD growth was revised up by 0.1 pp for both 2017 and 2018, to now stand at 2.4% and 2.3%, respectively. Also, in emerging and developing economies, the momentum continues and may show upside from current growth levels.

In the OECD, US underlying growth remains robust and the additional support of the US tax cut has lifted the 2018 GDP growth forecast further to 2.6%, after growth of 2.3% in 2017. Also, growth in Japan was revised up for 2018 to 1.6% and for 2017 to 1.8%, due to ongoing momentum in 2H17 that is forecast to carry over into the current year. The Euro-zone continues enjoying a good dynamic, leading to an upward revision in 2017 to growth of 2.4%, followed by 2.1% in 2018.

In the emerging economies, the major economies' growth forecasts remains almost unchanged, except the 2018 forecasts for Brazil and India. As the Brazilian economy continues recovering, 2018 growth was revised up to 1.7%, after growth of 0.8% in 2017. India's somewhat softening momentum led to a downward revision to 7.2% in 2018, after growth of 6.5% in 2017. China's GDP growth expectation remains unchanged at 6.8% for 2017 and at 6.5% in 2018. Russia is forecast to continue its recovery in 2018, with growth of 1.8% in 2018, after 1.9% in 2017.

While numerous economies seem to grow at, or above, GDP growth potential, some limited upside remains. Despite this positive outlook, uncertainties prevail. Among the most influential uncertainties in the near term are geo-political developments, in addition to the pace of monetary policy normalisation, in combination with high debt levels in many countries and considerable valuations in asset markets. Moreover, stability in the oil market remains a key-determinant for global economic growth

Table 3 - 1: Economic growth rate and revision, 2017-2018*, %

	World	OECD	US	Japan	Euro-zone	UK	China	India	Brazil	Russia
2017	**3.7**	**2.4**	**2.3**	**1.8**	**2.4**	**1.5**	**6.8**	**6.5**	**0.8**	**1.9**
Change from previous month	0.0	0.1	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0
2018	**3.7**	**2.3**	**2.6**	**1.6**	**2.1**	**1.4**	**6.5**	**7.2**	**1.7**	**1.8**
Change from previous month	0.0	0.1	0.1	0.2	0.0	0.0	0.0	-0.2	0.2	0.0

*Note: * 2017 = Estimate and 2018 = Forecast.*
Source: OPEC Secretariat.

Reference: OPEC Monthly Oil Market Report – January 2018

World Oil Demand

The world oil demand growth estimate for 2017 was revised higher by 43 tb/d, to average 1.57 mb/d.

Consequently, 2017 world oil demand stands at 96.99 mb/d. The upward revision was broadly a result of better-than-expected data for OECD Europe and China.

For 2018, oil demand growth is forecast at around 1.53 mb/d, with anticipated world oil consumption expected to reach 98.51 mb/d. OECD is expected to grow by 0.29 mb/d, while non-OECD oil demand is projected to increase by 1.24 mb/d.

Based on latest available data, oil demand growth in the OECD regions was adjusted higher by 13 tb/d in 2017 since the last MOMR assessment.

The upward revision mainly reflected the positive momentum witnessed in OECD Europe – by 100 tb/d in 3Q17 – as better-than-expected performance of oil demand growth data persisted in various countries in the region, driven by solid economic momentum and in line with healthy demand in the transportation and petrochemical sectors.

OECD Americas was also adjusted higher (by 50 tb/d in 4Q17) accounting for better-than-expected performance for gasoline supported by healthy car sales in October. Nevertheless, oil demand growth was revised downward (by 100 tb/d in 3Q17) as a result of weaker-than-anticipated gasoline and petrochemical feedstocks demand during and after hurricane season.

Forecast for 2018, OECD oil demand growth remains almost unchanged from previous month’s reports.

Global Oil Demand (2017-2018)

(million barrels per day) *

							Change 2018/17	
	2017	1Q18	2Q18	3Q18	4Q18	2018	Growth	%
Americas	24.97	24.79	25.22	25.39	25.32	25.18	0.21	0.83
of which US	*20.23*	*20.07*	*20.52*	*20.56*	*20.49*	*20.41*	*0.19*	*0.92*
Europe	14.22	13.94	14.24	14.70	14.35	14.31	0.08	0.60
Asia Pacific	8.16	8.60	7.73	7.89	8.40	8.15	0.00	-0.02
Total OECD	**47.35**	**47.33**	**47.19**	**47.98**	**48.07**	**47.64**	**0.29**	**0.61**
Other Asia	13.15	13.23	13.68	13.32	13.83	13.52	0.37	2.81
of which India	*4.47*	*4.65*	*4.66*	*4.32*	*4.97*	*4.65*	*0.18*	*4.11*
Latin America	6.52	6.36	6.59	6.91	6.55	6.60	0.09	1.30
Middle East	8.06	8.20	7.99	8.51	7.92	8.15	0.10	1.18
Africa	4.21	4.39	4.32	4.27	4.40	4.34	0.14	3.23
Total DCs	**31.93**	**32.17**	**32.59**	**33.00**	**32.70**	**32.62**	**0.69**	**2.15**
FSU	4.70	4.66	4.50	4.89	5.20	4.82	0.12	2.45
Other Europe	0.72	0.73	0.69	0.73	0.82	0.74	0.03	3.48
China	12.28	12.28	12.81	12.71	12.97	12.69	0.41	3.34
Total "Other regions"	**17.70**	**17.67**	**18.01**	**18.33**	**19.00**	**18.25**	**0.55**	**3.11**
Total world	**96.99**	**97.17**	**97.79**	**99.30**	**99.77**	**98.51**	**1.53**	**1.57**
Previous estimate	96.94	97.15	97.77	99.24	99.63	98.45	1.51	1.56
Revision	0.04	0.01	0.01	0.06	0.13	0.06	0.01	0.01

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

Reference: OPEC Monthly Oil Market Report – January 2018

World Oil Supply

Non-OPEC preliminary oil supply in December 2017 rose by 0.34 mb/d m-o-m, mainly in Canada, Mexico, Norway, Brazil and Kazakhstan to average 58.62 mb/d, while production declined m-o-m in the US, and the UK.

The non-OPEC supply growth estimation for 2017 has been revised downward to average 57.79 mb/d. While the oil supply growth estimation for the US, Canada, other OECD Europe and Russia improved, expected growth in Norway, UK, Indonesia, Argentina and Brazil has been adjusted down.

The US remains the key driver of non-OPEC supply growth, adding 0.62 mb/d to non-OPEC production in 2017, supported by other countries such as; Canada with 0.32 mb/d, Brazil with 0.17 mb/d, Kazakhstan with 0.18 mb/d, Russia with 0.09 mb/d, Ghana with 0.07 mb/d and Congo with 0.04 mb/d.

In contrast, oil supply in 2017 is mainly expected to contract in Mexico by 0.22 mb/d, China by 0.12 mb/d, Azerbaijan by 0.05 mb/d, in Indonesia by 0.05 mb/d, in Oman by 0.04 mb/d, and in Egypt, Colombia, Argentina, Vietnam and Norway by 0.03 mb/d each.

Non-OPEC supply in 2018 was revised up by 121 tb/d in absolute terms to average 58.94 mb/d, and now is expected to grow at a faster pace, leading to an upward revision in y-o-y growth by 161 tb/d to average 1.15 mb/d, compared to the previous month's MOMR.

This is mainly due to a higher-than-expected supply forecast for the US, Canada, Mexico, UK, Denmark, Indonesia, Brazil, Latin America others, and FSU others, while the expectations for Norway, Other OECD Europe, Australia, Argentina, Egypt, and Russia have declined. The US, Canada, Brazil, the UK, Kazakhstan, Ghana, India and Australia, are expected to be the key countries driving growth next year, in contrast to Russia (-0.19 mb/d), China (-0.16 mb/d), Mexico (-0.14 mb/d), Norway (-0.07 mb/d), and countries such as; Azerbaijan, Colombia, Egypt, as well as some other countries with less than 50 tb/d y-o-y decline, which are expected to see a further drop in oil supply.

OECD Americas' oil supply in 2017 is predicted to average 21.33 mb/d, an increase of 0.72 mb/d y-o-y. The oil supply forecast was revised up by 24 tb/d in December 2017 owing to upward revisions for the US and Canada's production in 4Q17 and adjustment of historical production in 3Q17. Hence, oil supply in the US and Canada was revised up by 0.02 mb/d and 0.01 mb/d, to average 14.26 mb/d and 4.82 mb/d, respectively.

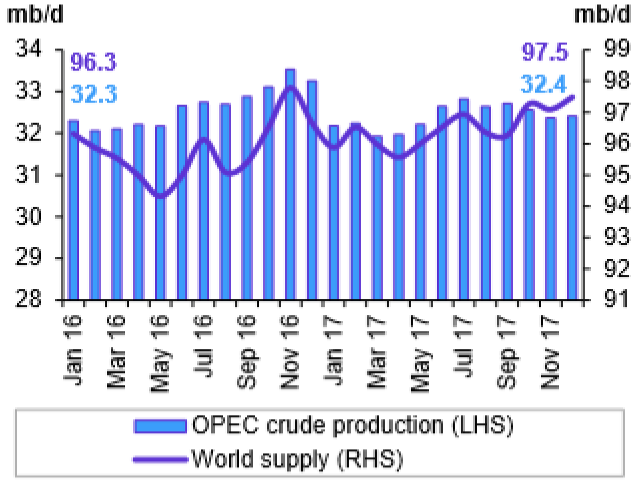
In 2018, supply forecast in OECD Americas is also revised up by 0.2 mb/d and now is expected to grow by 1.26 mb/d, to average 22.58 mb/d. The oil supply growth forecast for the US and Canada has been revised up and now is expected to grow by 1.15 mb/d and 0.25 mb/d, respectively, while Mexico's oil supply for the next year is expected to return to previous levels of natural decline and contract only by 0.14 mb/d.

OECD liquids production in 2017 was revised down by 0.03 mb/d to average 25.51 mb/d, indicating growth of 0.67 mb/d y-o-y. OECD Americas saw an upward revision by 24 tb/d, while OECD Europe's supply estimation was revised down by 50 tb/d, leading to annual growth of 0.72 mb/d and -0.02 mb/d y-o-y, respectively. OECD Asia Pacific is expected to marginally decline by 0.02 mb/d to average 0.40 mb/d in 2017.

For 2018, OECD supply is forecast to average 26.80 mb/d, revised up by 0.15 mb/d and representing growth of 1.28 mb/d, mainly from OECD Americas.

OPEC Supply

(million barrels per day)



Source: OPEC Secretariat.

Non-OPEC Supply

(million barrels per day)

	2017	1Q18	2Q18	3Q18	4Q18	2018	Change 2018/17 Growth	%
Americas	21.33	22.41	22.46	22.58	22.88	22.58	1.26	5.90
of which US	*14.26*	*15.11*	*15.35*	*15.49*	*15.65*	*15.40*	*1.15*	*8.04*
Europe	3.79	3.78	3.79	3.70	3.90	3.79	0.00	0.12
Asia Pacific	0.40	0.39	0.42	0.43	0.44	0.42	0.02	5.26
Total OECD	**25.51**	**26.58**	**26.67**	**26.71**	**27.22**	**26.80**	**1.28**	**5.04**
Other Asia	3.62	3.60	3.59	3.58	3.55	3.58	-0.04	-0.98
Latin America	5.20	5.29	5.28	5.42	5.33	5.33	0.13	2.40
Middle East	1.24	1.24	1.24	1.24	1.24	1.24	0.00	-0.24
Africa	1.85	1.89	1.89	1.90	1.90	1.90	0.05	2.68
Total DCs	**11.91**	**12.03**	**12.00**	**12.13**	**12.02**	**12.05**	**0.14**	**1.15**
FSU	14.06	13.97	13.94	13.81	13.94	13.92	-0.14	-1.02
of which Russia	*11.17*	*10.98*	*10.98*	*10.98*	*10.98*	*10.98*	*-0.19*	*-1.71*
Other Europe	0.12	0.13	0.13	0.13	0.12	0.13	0.00	1.37
China	3.98	3.89	3.80	3.79	3.79	3.82	-0.16	-4.05
Total "Other regions"	**18.16**	**17.99**	**17.87**	**17.73**	**17.85**	**17.86**	**-0.30**	**-1.66**
Total non-OPEC production	**55.58**	**56.59**	**56.55**	**56.57**	**57.10**	**56.70**	**1.12**	**2.01**
Processing gains	2.21	2.23	2.23	2.23	2.23	2.23	0.03	1.32
Total non-OPEC supply	**57.79**	**58.83**	**58.78**	**58.80**	**59.33**	**58.94**	**1.15**	**1.99**
Previous estimate	57.82	58.67	58.67	58.70	59.21	58.81	0.99	1.71
Revision	-0.04	0.16	0.11	0.10	0.12	0.12	0.16	0.28

*Note: * 2018 = Forecast.*
Source: OPEC Secretariat.

Reference: OPEC Monthly Oil Market Report – January 2018

Crude Oil Price Movements

In 2H17 the OPEC Reference Basket (ORB) rose for the sixth consecutive month to average December at $62.06/b. Year-to-date (y-t-d), the ORB ended 2017 significantly higher at $52.43/b, up by 28.6%, or $11.67/b, compared to the previous year. Oil prices have received wide-ranging support from production adjustments under the Declaration of Cooperation (DoC), which started in January last year, as well as from strong economic and demand growth and healthy financial markets, which has helped improve market fundamentals significantly. US commercial crude inventories fell by 7.4 mb in the week to 29 December, to 424.5 mb, according to data from the Energy Information Administration (EIA).

That is down 20% from peaks last March.

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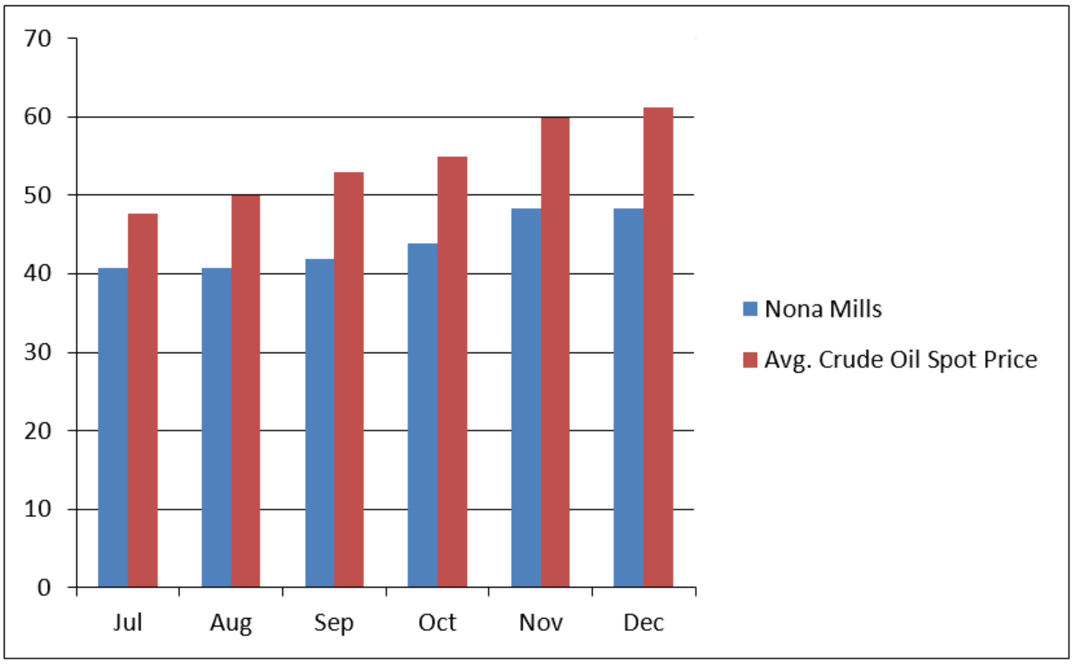
Hedge funds raised their combined futures and options positions in NYMEX WTI by 15,488 contracts to 411,972 lots. Similarly, net long positions in ICE Brent increased by 23,305 contracts to 561,284 lots, a new all-time record high. The long-to-short ratio in ICE Brent speculative positions decreased to 10.92, while that of NYMEX WTI remained unchanged at around 10.9. The total futures and options open interest volume in the two exchanges dropped by 101,661 lots to 6.02 million contracts.

The production disruption in the North Sea crude system supported the widening of the sweet/sour differentials in Europe and Asia, while the USGC spread continued to narrow on the back of ongoing limited supplies of heavy sour crudes to the US.



Reference: OPEC Monthly Oil Market Report – January 2018

Global Market Conditions

Central banks in major developed economies are expected to implement some monetary tightening in 2018. This is mainly due to the strong momentum in global economic growth which is expected to continue into the year, as well as inflation expectations rising and the improving labour market in these economies.

Higher crude prices have supported headline inflation readings, although core inflation – which strips out energy and food prices – has generally remained moderate in developed economies. While inflation readings are expected to remain moderate in 2018 in the three largest developed economies, namely the US, the Euro-zone and Japan, central banks expect some improvements.

Indeed, robust gains in labour markets have pushed unemployment rates lower in 2017 – in some cases close to levels considered as full employment. This has only translated in modest wage growth so far, indicating that there is still some slack in the labour market, giving further room for keeping monetary policy accommodative, with a gradual approach towards normalization of monetary policy going forward.

As a result, median expectation by participants at the US Federal Reserve's policy setting meeting in December viewed an additional increase of 75 basis points (bps) in the target range of the Federal funds rate, the Feds key policy rate, in 2018 as appropriate. This is unchanged from their September estimations, in spite of expectations for a lower unemployment rate and faster economic growth this year. Embedded in that forecast is the potential boost from the recently approved tax reform legislation in the US, although significant uncertainty about that impact was noted during the meeting.

The Fed noted that inflation risks appear to be roughly balanced. Moreover, market-based measures of inflation compensation in US dollar show a low – though increasing – likelihood of above target inflation in the medium- and long-term. Taking all this into account, the Fed has been moving forward cautiously. In 2017, a more moderate-than-previously expected pace of monetary tightening in the US generally translated into lower US dollar, which provided some flexibility for the central banks of emerging economies. Emerging economies are particularly sensitive to sudden upward shifts in interest rates expectations in the US, which would normally result in a tighter monetary policy to limit large currency depreciations and capital outflows, which could curtail oil demand growth in those economies.

Reference: OPEC Monthly Oil Market Report – January 2018

NONA MILLS PROJECT REPORT UPDATE

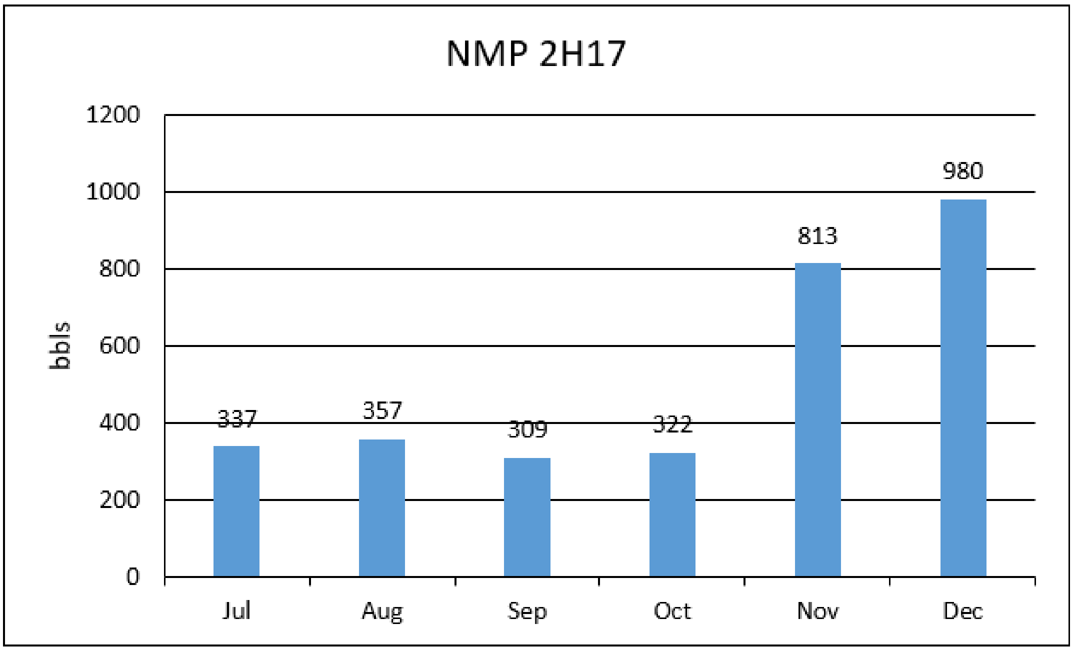
The Nona Mills field is an old and mature field with finite amount of hydro-carbons available for production; thus, when oil and gas prices drop below a certain point (in this case $45/bbl/oil the operators will generally produce the lease only to hold the lease by production.

The second half of 2017 is a perfect example of this strategy; July 2017 through October 2017 – The operator produced the lease at approximately 10 bbls/day as the price of oil stayed at about $43.50/bbl. The operating expenses continue to be high as the cost of running the gas compressors to generate the pressure to produce the well is rather high. November 2017 – December 2017 – The price of oil moved to an average of $48.5/bbl. This higher price led the operator to increase production to over 30bbls/day for the lease. Operating expenses were stabilised and the lease actually made a profit for the first time in almost 3 years.

It is expected that the oil price will stay above $50 for most of 2018; thus, justifying a further increase in production. With higher prices, the operator is once again exploring technology that might get production above 50 bbls/day. This would make the lease profitable. TXCAPP is working with the operator to better understand how to cut operating expenses and still increase production.

With all this taken into consideration the net investor revenue of the NMP 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 2017 to December 2017 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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