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# Jadestone Energy Inc.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

As at and for the six months ended

June 30, 2018

Company Registration No. BC0350583 (Canada)

# Jadestone Energy Inc.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at June 30, 2018

	Notes	June 30, 2018 US\$000	December 31, 2017 US\$000
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Intangible exploration assets	9	94,074	105,673
Oil and gas properties	10	53,976	62,238
Deferred tax assets		24,337	23,821
Plant and equipment	11	1,443	648
Restricted cash	12	10,000	10,729
		<u>183,830</u>	<u>203,109</u>
<b>Current assets:</b>			
Inventories		13,617	9,610
Receivables and prepayments		4,203	4,719
Cash and cash equivalents	12	6,565	10,450
		<u>24,385</u>	<u>24,779</u>
<b>TOTAL ASSETS</b>		<u>208,215</u>	<u>227,888</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity:</b>			
Share capital	13	364,466	364,466
Share-based payment and warrants	14	22,128	21,855
Hedging reserve		(3,441)	-
Accumulated losses		<u>(299,626)</u>	<u>(278,123)</u>
		83,527	108,198
<b>Non-current liabilities:</b>			
Provision for asset restoration obligations	15	82,982	84,728
Other payables		6,712	7,259
Deferred tax liabilities		-	200
Secured convertible bonds	17	13,330	12,770
Derivative financial instruments	17	4,360	3,067
		<u>107,384</u>	<u>108,024</u>
<b>Current liabilities:</b>			
Borrowings		184	829
Trade & other payables, accruals and provisions		12,533	10,837
Other financial liabilities	16	4,587	-
		<u>17,304</u>	<u>11,666</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>208,215</u>	<u>227,888</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Jadestone Energy Inc.

## CONDENSED CONSOLIDATED INTERIM PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME for the six months ended June 30, 2018

	Notes	Three months ended June 30,		Six months ended June 30,	
		2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
Gross revenue		18,333	18,134	39,332	35,344
Royalties		(837)	(2,432)	(3,549)	(3,157)
Cash flow hedges		(1,072)	-	(1,307)	-
Net revenue		<u>16,424</u>	<u>15,702</u>	<u>34,476</u>	<u>32,187</u>
Production costs	3	(10,657)	(22,188)	(23,465)	(40,200)
Depletion, depreciation and amortization	4	(2,264)	(2,476)	(5,064)	(4,899)
Staff costs		(3,780)	(3,259)	(6,805)	(6,232)
Other expenses	5	(1,645)	(1,784)	(4,090)	(3,754)
Impairment of assets	6	-	-	(11,902)	(7,667)
Other income		44	681	56	799
Purchase discount		-	-	-	789
		<u>(1,878)</u>	<u>(13,324)</u>	<u>(16,794)</u>	<u>(28,977)</u>
Finance costs	7	<u>(1,988)</u>	<u>(669)</u>	<u>(2,967)</u>	<u>(681)</u>
LOSS BEFORE TAX		(3,866)	(13,993)	(19,761)	(29,658)
Taxation expense/(credit)	8	<u>(1,046)</u>	<u>2,215</u>	<u>(1,742)</u>	<u>(1,605)</u>
LOSS FOR THE PERIOD		<u>(4,912)</u>	<u>(11,778)</u>	<u>(21,503)</u>	<u>(31,263)</u>
Loss per ordinary share: Basic and diluted (US\$)		<u>0.03</u>	<u>0.05</u>	<u>0.10</u>	<u>0.14</u>
<b>Loss for the period</b>		(4,912)	(11,778)	(21,503)	(31,263)
<b>Other comprehensive income, net of tax:</b>					
Items to be reclassified to profit or loss in subsequent periods					
Loss on derivatives designated as cash flow hedges		(3,933)	-	(4,916)	-
Tax effect		<u>1,180</u>	-	<u>1,475</u>	-
Total comprehensive loss attributable to owners of the Company		<u>(2,753)</u>	-	<u>(3,441)</u>	-
		<u>(7,665)</u>	<u>(11,778)</u>	<u>(24,944)</u>	<u>(31,263)</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Jadestone Energy Inc.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF EQUITY for the six months ended June 30, 2018

	Share capital US\$000	Share-based payment reserves US\$000	Cash flow hedging reserve US\$000	Accumulated losses US\$000	Total US\$000
At January 1, 2017	364,466	21,357	-	(243,708)	142,115
Loss for the period	-	-	-	(31,263)	(31,263)
<b>Transactions with owners, recognized directly in equity:</b>					
Recognition of share-based compensation	-	211	-	-	211
Total transactions with owners	-	211	-	-	211
At June 30, 2017	<u>364,466</u>	<u>21,568</u>	<u>-</u>	<u>(274,971)</u>	<u>(111,063)</u>
At January 1, 2018	364,466	21,855	-	(278,123)	108,198
Loss for the period	-	-	-	(21,503)	(21,503)
Other comprehensive loss for the period	-	-	(3,441)	-	(3,441)
<b>Transactions with owners, recognized directly in equity:</b>					
Recognition of share-based compensation	-	273	-	-	273
Total transactions with owners	-	273	-	-	273
At June 30, 2018	<u>364,466</u>	<u>22,128</u>	<u>(3,441)</u>	<u>(299,626)</u>	<u>83,527</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Jadestone Energy Inc.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS for the six months ended June 30, 2018

	Notes	Three months ended		Six months ended	
		June 30,		June 30,	
		2018	2017	2018	2017
		US\$000	US\$000	US\$000	US\$000
<b>OPERATING ACTIVITIES</b>					
Loss before tax		(3,866)	(13,993)	(19,761)	(29,658)
<b>Adjustments for:</b>					
Depletion, depreciation and amortization	4	2,264	2,475	5,064	4,899
Finance costs	7	1,674	744	2,468	1,186
Share-based payment	14	127	149	273	211
Unrealized foreign exchange loss/(gain)	7	(73)	(74)	(175)	(502)
Impairment of assets	6	-	-	11,902	6,191
Interest income	7	(32)	(1)	(66)	(3)
Purchase discount		-	-	-	(789)
Inventories written down		-	(429)	-	284
Operating cash flows before movements in working capital		94	(11,129)	(295)	(18,183)
<b>Changes in working capital:</b>					
(Increase)/decrease in inventories		(2,288)	746	(4,007)	4,740
Decrease/(increase) in receivables and prepayments		43	(3,605)	1,181	(3,148)
Increase/(decrease) in trade & other payables, accruals and provisions		99	5,859	1,664	1,942
Cash (used) in operations		(2,052)	(8,129)	(1,457)	(14,649)
Taxation paid		(531)	(286)	(1,049)	(286)
<b>NET CASH (USED) IN OPERATING ACTIVITIES</b>		<b>(2,583)</b>	<b>(8,415)</b>	<b>(2,506)</b>	<b>(14,935)</b>
<b>INVESTING ACTIVITIES</b>					
Acquisition of Ogan Komering, net of cash acquired		-	-	-	(1,641)
Payment for oil and gas properties		(182)	(591)	(389)	(879)
Payment for intangible exploration assets		(69)	(47)	(358)	(2,047)
Payment for plant and equipment		(14)	(57)	(16)	(481)
Proceeds from disposal of plant and equipment		27	400	27	400
Interest received		32	-	66	-
<b>NET CASH (USED) IN INVESTING ACTIVITIES</b>		<b>(206)</b>	<b>(295)</b>	<b>(670)</b>	<b>(4,648)</b>

# Jadestone Energy Inc.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS for the six months ended June 30, 2018

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FINANCING ACTIVITIES				
Payments for borrowings	(276)	(223)	(645)	(447)
Net drawdown on convertible bonds	-	9,700	-	9,700
Payments for bond facility standby fees	<u>(32)</u>	<u>-</u>	<u>(64)</u>	<u>(115)</u>
NET CASH GENERATED/(USED) FINANCING ACTIVITIES	<u>(308)</u>	<u>9,477</u>	<u>(709)</u>	<u>9,138</u>
Effect of translation on foreign currency cash and cash equivalents	-	(133)	-	(690)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(3,097)	634	(3,885)	(11,131)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>9,662</u>	<u>14,478</u>	<u>10,450</u>	<u>26,243</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>6,565</u>	<u>15,112</u>	<u>6,565</u>	<u>15,112</u>

The accompanying notes are an integral part of the consolidated financial statements.

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

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### 1. CORPORATE INFORMATION

Jadestone Energy Inc. (the “Company” or “Jadestone”) is an oil and gas company incorporated in Canada. The Company’s common shares are listed on the TSX Ventures Exchange (“TSX-V”) under the symbol JSE.

On August 8, 2018, the Company issued 239,711,474 new ordinary common shares raising gross proceeds of approximately £83.9 million, at a price of 35 pence per share and, listed on the London AIM Market.

The financial statements are expressed in United States Dollars (“US\$”).

The Company and its subsidiaries (the “Group”) are engaged in production, development, and exploration and appraisal activities in Australia, Indonesia, Vietnam and the Philippines. The Company’s current producing asset is in the Carnarvon Basin, offshore Western Australia.

The Company’s head office is located at Keppel Towers, #15-05/06, 10 Hoe Chiang Road, Singapore 089315. The registered office of the Company is 10th Floor, 595 Howe Street, Vancouver, British Columbia V6C 2T5, Canada.

### 2. BASIS OF PREPARATION

#### Statement of compliance

These unaudited condensed interim financial statements (the “Financial Statements”) are prepared in accordance with International Accounting Standard IAS 34, Interim Financial Reporting, on a going concern basis under the historical cost convention. They do not contain all disclosures required by International Financial Reporting Standards for annual financial statements and accordingly, should be read in conjunction with Jadestone’s audited consolidated financial statements for the period ended December 31, 2017.

These Financial Statements were approved for issuance by the Company’s Board of Directors on August 28, 2018 on the recommendation of the Audit Committee.

#### Basis of measurement

These Financial Statements have been prepared on an historical cost basis, except for financial instruments classified as financial instruments at fair value, which are stated at their fair values. In addition, these financials have been prepared using the accrual basis of accounting.

#### Hedge accounting

For the purposes of hedge accounting, hedges are classified as either:

- Fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or
- Cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting, along with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

the hedged item's fair value or cash flows attributable to the hedged risk. To achieve hedge accounting, the relationships must be expected to be highly effective and are assessed on an ongoing basis, to determine that they continue to meet the risk management objective.

Hedge accounting is discontinued when the hedge instrument expires, is sold, terminates, is exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in Other Comprehensive Income (OCI) remains in hedge reserve until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the year.

### Cash flow hedges

The effective portion of the gain or loss on hedging instruments that are classified as cash flow hedges, is recognised in OCI, while any ineffective portion is recognised immediately in the statement of profit or loss. The ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

### 3. PRODUCTION COST

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	US\$000	US\$000	US\$000	US\$000
<b>Stag Oilfield:</b>				
FSO vessel expenses	4,255	6,592	8,219	13,652
Workovers	2,106	9,212	5,536	12,131
Repairs & maintenance	1,214	697	1,979	1,971
Air, marine and onshore support	1,090	(56)	2,345	(112)
Other operating expenses	989	3,250	2,624	9,368
	<u>9,654</u>	<u>19,695</u>	<u>20,703</u>	<u>37,010</u>
<b>Ogan Komerling:</b>				
Operating expenses	1,003	2,493	2,762	3,190
	<u>10,657</u>	<u>22,188</u>	<u>23,465</u>	<u>40,200</u>

The Ogan Komerling PSC expired on February 28, 2018 and a temporary co-operation contract was entered into, continuing the PSC terms pending the issue of the new PSC on May 20, 2018, at which time Jadestone ceased to hold an interest in Ogan Komerling.



# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

### 4. DEPLETION, DEPRECIATION AND AMORTISATION

	Three months ended June 30,		Six months ended June 30,	
	2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
<b>Depletion and amortisation (Note 10):</b>				
Stag Oilfield	2,166	2,009	4,210	4,408
Ogan Komering	-	434	657	434
	<u>2,166</u>	<u>2,443</u>	<u>4,867</u>	<u>4,842</u>
Depreciation for plant and equipment (Note 11)	98	33	197	57
	<u>2,264</u>	<u>2,476</u>	<u>5,064</u>	<u>4,899</u>

The Ogan Komering PSC was fully depleted as at the end of the PSC on February 28, 2018.

### 5. OTHER EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
Professional fees/consultancies	695	894	1,593	883
Office costs	992	837	1,606	1,930
Cash flow hedges	27	-	652	-
Travel & subsistence	14	172	331	299
Time costs – recovery	(111)	(160)	(159)	(659)
Operator G&A	27	-	67	176
Other overhead	-	-	-	234
Others	-	41	-	558
Participating interest tax and branch profit tax	-	-	-	333
	<u>1,644</u>	<u>1,784</u>	<u>4,090</u>	<u>3,754</u>

### 6. IMPAIRMENT OF ASSETS

	Three months ended June 30,		Six months ended June 30,	
	2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
Impairment of intangible exploration assets	-	-	11,902	5,950
Impairment of material and spare parts	-	-	-	1,717
	<u>-</u>	<u>-</u>	<u>11,902</u>	<u>7,667</u>

During Q1 2018, an impairment of US\$11.9 million (six months to June 30, 2017: US\$6.0 million) was incurred as the decision was taken not to perform any further exploration activities on MEVPK/127 in Vietnam. The Company has commenced relinquishment, to return the block back to the Vietnamese government.

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

### 7. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
Accretion expense (Note 15, 17)	630	613	1,084	979
Fair value loss on derivative liability	982	-	1,293	-
Interest on convertible bonds (Note 17)	280	8	558	8
Foreign exchange (gain)/loss	56	(74)	(43)	(502)
Interest income	(32)	(1)	(66)	(3)
Others	72	123	141	199
	<u>1,988</u>	<u>669</u>	<u>2,967</u>	<u>681</u>

### 8. TAXATION EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2018 US\$000	2017 US\$000	2018 US\$000	2017 US\$000
Deferred tax (income)/expense relating to PRRT	190	(2,501)	461	591
Corporate income tax	1,185	286	2,068	1,014
Deferred tax on cash flow hedges	(329)	-	(587)	-
Deferred tax liabilities	-	-	(200)	-
Tax expense/(credit)	<u>1,046</u>	<u>(2,215)</u>	<u>1,742</u>	<u>1,605</u>

The Australian corporate income tax rate is applied at 30%. Australian PRRT is applied at 40% of sales revenue less certain permitted deductions and is tax deductible for Australian corporate income tax purposes. The above movement in deferred tax balances relates to temporary differences between the tax base of an asset or liability, and its carrying amount in the statement of financial position.

The Indonesian corporate income tax rate is applied at 35%. Branch profit tax is applied at 20%.

The Company is resident in the Province of British Columbia and pays no Canadian tax as it has no operating assets in Canada and is in a tax loss position. The subsidiary companies are resident for tax purposes in the countries in which they operate. No Canadian tax arises in the current period, or in the previous year, from any of the subsidiaries' operations.

### 9. INTANGIBLE EXPLORATION ASSETS

	Total US\$000
At January 1, 2018	105,673
Additions	303
Impairment	(11,902)
At June 30, 2018	<u>94,074</u>
At December 31, 2017	<u>105,673</u>

During the six months ended June 2018, the Company performed a review of its exploration assets and decided no further exploration activities would be performed on Vietnam PSC MEVVK/127, resulting in

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

an impairment of US\$11.9 million. The Company has commenced relinquishment, to return the block back to the Vietnamese government.

### 10. OIL AND GAS PROPERTIES

	<b>Total US\$000</b>
<b>Cost:</b>	
At January 1, 2018	75,863
Changes in asset restoration obligation (Note 15)	(2,781)
Transfer to plant and equipment	(1,003)
Addition	389
	<u>72,468</u>
At June 30, 2018	<u>72,468</u>
<b>Accumulated depletion and amortisation:</b>	
At January 1, 2018	(13,625)
Depletion and amortisation for the period	(4,867)
	<u>(18,492)</u>
At June 30, 2018	<u>(18,492)</u>
<b>Net book value:</b>	
At June 30, 2018	<u>53,976</u>
At December 31, 2017	<u>62,238</u>

### 11. PLANT AND EQUIPMENT

	<b>Computer equipment US\$000</b>	<b>Fixtures and equipment US\$000</b>	<b>Total US\$000</b>
<b>Cost:</b>			
At January 1, 2018	1,180	1,024	2,204
Transfer from oil and gas properties	1,003	-	1,003
Additions	16	-	16
Disposal	(26)	(1)	(27)
At June 30, 2018	<u>2,173</u>	<u>1,023</u>	<u>3,196</u>
<b>Accumulated depreciation:</b>			
At January 1, 2018	(665)	(891)	(1,556)
Charge for the period	(172)	(25)	(197)
At June 30, 2018	<u>(837)</u>	<u>(916)</u>	<u>(1,753)</u>
<b>Net book value:</b>			
At June 30, 2018	<u>1,336</u>	<u>107</u>	<u>1,443</u>
At December 31, 2017	<u>515</u>	<u>133</u>	<u>648</u>

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

### 12. CASH AND CASH EQUIVALENTS

	June 30, 2018 US\$000	December 31, 2017 US\$000
<b>Current asset:</b>		
Cash at bank	<u>6,565</u>	<u>10,450</u>
<b>Non-current asset:</b>		
Restricted cash: Stag	10,000	10,000
Restricted cash: Ogan Komering	<u>-</u>	<u>729</u>
	<u>10,000</u>	<u>10,729</u>

Restricted cash at June 30, 2018 comprises Stag's cash deposit of US\$10.0 million, placed by the Company in support of a bank guarantee to a key contractor, with respect to the Company's obligations under a long term contract.

The Ogan Komering PSC temporary co-operation contract expired on May 20, 2018, at which time the company ceased to hold an interest in Ogan Komering. The decommissioning fund of US\$0.7 million was transferred to Pertamina, as the new operator, to fulfil the decommissioning activities at the end of the new production sharing contract.

### 13. SHARE CAPITAL

#### Authorised ordinary common shares:

Unlimited number of common voting shares with no par value.

#### Allotted and outstanding:

	No. Shares	US\$000
At December 31, 2017	<u>221,298,004</u>	<u>364,466</u>
At June 30, 2018	<u>221,298,004</u>	<u>364,466</u>

The holders of ordinary common shares are entitled to receive dividends as and when declared by the Company. Fully paid ordinary common shares carry one vote per share without restriction, and carry a right to dividends as and when declared by the Company.

On August 8, 2018, the Company issued 239,711,474 new ordinary common shares, raising gross proceeds of approximately £83.9 million, at a price of 35 pence per share and listed on the London AIM Market.

### 14. SHARE-BASED PAYMENTS

The total expense arising from share-based payments recognized for the six month period ended June 30, 2018 was US\$0.3 million (June 30, 2017: US\$0.3 million).

On August 19, 2015, the Company adopted, as approved by shareholders, a stock incentive plan (the "Plan") which establishes a rolling number of shares issuable under the Plan in the amount of 10% of the Company's issued shares at the date of grant. Under the terms of the Plan, the exercise price of each

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

option granted, cannot be less than the market price at the date of grant, or such other price as may be required by TSX-V. Options under the Plan can have a term of up to 10 years, with vesting provisions determined by the directors in accordance with TSX-V policies for Tier 2 Issuers.

The Black-Scholes option-pricing model, with the following assumptions, was used to estimate the fair value of the options at the date of grant:

	Options granted on			
	March 29, 2018	December 10, 2017	March 28, 2017	June 8, 2016
Risk-free interest rate	1.99% to 2.04%	1.68% to 1.72%	1.11% to 1.21%	0.70% to 0.83%
Expected life	5.5 to 6.5 years	5.5 to 6.5 years	5.5 to 6.5 years	5.5 to 6.5 years
Expected volatility	43.1% to 44.1%	43.2% to 43.9%	41.6% to 42.8%	42.1% to 42.7%
Share price	C\$0.43	C\$0.42	C\$0.45	C\$0.49
Exercise price	C\$0.50	C\$0.45	C\$0.47	C\$0.49
Expected dividends	Nil	Nil	Nil	Nil

The following table summarizes the share options outstanding and exercisable as at June 30, 2018:

	Number of options	Weighted average exercise price C\$	Weighted average remaining contract life	Number of options exercisable
As at January 1, 2018	8,102,821	0.58	9.03	927,822
New share options issued	3,000,000	0.50	10.00	-
Cancelled during the quarter	(170,000)	1.03	-	-
As at June 30, 2018	10,932,821	0.55	8.87	3,241,164

### 15. PROVISION FOR ASSET RESTORATION OBLIGATIONS

	June 30, 2018 US\$000	December 31, 2017 US\$000
<b>Non-Current:</b>		
Opening balance	84,728	77,186
Accretion expense (Note 7)	1,035	1,589
Changes in discount and forex rate assumptions (Note 10)	(2,781)	5,919
Others	-	34
	<u>82,982</u>	<u>84,728</u>

The Group's asset restoration obligations ("ARO") result from the future costs of decommissioning the Stag Oilfield facilities, which are expected to be incurred after 2034. The balance of the provision is the discounted present value of the estimated future costs. The present value of the ARO has been calculated based on the blended estimated Australian and United States risk free rate of 2.73% after allowing for an inflation rate of 2.27%, both as at June 30, 2018 (blended risk free rate of 2.52% and inflation rate of 2.27% as at December 31, 2017). The adjustments to the present value of the ARO arising from changes in discount rate and other economic estimates and assumptions for the period are included in oil and gas properties (Note 10).

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

### 16. OTHER FINANCIAL LIABILITIES

	<b>June 30, 2018 US\$000</b>	<b>December 31, 2017 US\$000</b>
Cash flow hedges	<u>4,587</u>	<u>-</u>

As at June 30, 2018, Jadestone has entered into two commodity hedges to hedge 350,000 bbls of crude oil production over the period January 2, 2018 to June 30, 2018 at Brent ICE crude fixed at US\$64.60/bbl, and another 350,000 bbls over the period July 1, 2018 to December 31, 2018, at Brent ICE crude fixed at US\$65.00/bbl. These have been designated as cash flow hedges and hence the fair value movements are recognised in other comprehensive income while the ineffective portion and the amount related to sales for the period are immediately recognised in the income statement.

### 17. SECURED CONVERTIBLE BONDS

Pursuant to the establishment of the convertible bond facility (the "Facility") with Tyrus Capital Event S.à r.l. ("Tyrus") on November 8, 2016, Jadestone paid a structuring fee equal to 2% of the total amount of the Facility. Jadestone is also required to pay a standby fee equal to 1% per annum on all undrawn amounts until maturity. The Facility will mature on October 31, 2019, at which time Tyrus will have the option to convert the full amount of any principal owing under the Facility into common shares of the Company at a conversion price of C\$0.50.

As at June 30, 2018, the drawn down amount of the convertible bond was US\$15 million. The cost related to the convertible bonds is tabled below.

	<b>Six months ended June 30, 2018 US\$000</b>	<b>Six months ended June 31, 2017 US\$000</b>
Interest expense	558	8
Standby fee	65	138
Bond accretion (Note 7)	560	6
Fair value of associated financial derivative	1,293	-
Amortisation of prepaid structuring fee	64	-
	<u>2,540</u>	<u>152</u>

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The fair value of the options as at June 30, 2018 amounting to US\$4.4 million (December 31, 2017: US\$3.0 million), embedded in the bonds as a derivative financial instrument, is included in the consolidated financial statement as a liability.

	<b>June 30, 2018 US\$000</b>	<b>December 31, 2017 US\$000</b>
Nominal value of convertible bonds issued	15,000	15,000
Derivative financial instruments at date of issuance	(2,390)	(2,390)
Liability component at date of issuance	<u>12,610</u>	<u>12,610</u>
Less: Convertible bonds issuance cost	(378)	(378)
Liability recognized at inception, net of costs	<u>12,232</u>	<u>12,232</u>
Cumulative accretion expense	1,098	538
	<u><u>13,330</u></u>	<u><u>12,770</u></u>

On July 16, 2018, the company entered into an Extension and Modification of Convertible Note Agreement with Tyrus, to agree the terms for an early redemption of the facility in exchange for US\$17.5 million. The company repaid the Facility on August 15, 2018.

### 18. FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGERMENTS

#### Categories of financial instruments

	<b>June 30, 2018 US\$000</b>	<b>December 31, 2017 US\$000</b>
<b>Financial assets:</b>		
Receivables	4,203	4,719
Cash and cash equivalents	6,565	10,450
	<u>10,768</u>	<u>15,169</u>
<b>Financial liabilities:</b>		
<i>At amortised cost:</i>		
Borrowings	184	829
Provisions	82,982	84,728
Payables	6,712	7,259
<i>At fair value:</i>		
Convertible bonds	13,330	12,770
Derivative financial instruments	4,360	3,067
	<u>107,568</u>	<u>108,653</u>

#### Commodity price risk

The Group's earnings are affected by changes in oil and gas prices. The Group manages this risk by monitoring oil and gas prices and entering into commodity hedges against fluctuations in oil prices if considered appropriate. As at June 30, 2018, Jadestone had entered into two commodity hedges to hedge 350,000 bbls of crude oil production over the period January 2, 2018 to June 30, 2018 at Brent ICE crude fixed at US\$64.60/bbl, and another 350,000 bbls over the period July 1, 2018 to December 31, 2018, at Brent ICE crude fixed at US\$65.00/bbl.

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

During the six-months ended June 30, 2018, the loss on cash flow hedges recognised in the statement of other comprehensive income amounted to US\$3.4 million net of tax (June 30, 2017: nil), and the loss on cash flow hedges recognised in the income statement amounted to US\$2.0 million net of tax (June 30, 2017: nil). As at June 30, 2018 the financial liability of the cash flow hedge amounted to US\$4.6 million (Note 16) (June 30, 2017: nil).

### *Commodity price sensitivity*

The results of operations and cash flows of oil and gas production can vary significantly with fluctuations in the market prices of oil and/or natural gas. These are affected by factors outside the Group's control, including the market forces of supply and demand, regulatory and political actions of governments, and attempts of international cartels to control or influence prices, among a range of other factors.

The table below summarises the impact on profit/(loss) before tax, and on equity, from changes in commodity prices on the fair value of derivative financial instruments. The analysis is based on the assumption that the crude oil price moves 10%, with all other variables held constant. Reasonably possible movements in commodity prices were determined based on a review of recent historical prices and current economic forecasters' estimates.

<b>Gain/(loss)</b>	<b>Effect on loss before tax for the period ended June 30, 2018 US\$000</b>	<b>Effect on other comprehensive income for the period ended June 30, 2018 US\$000</b>	<b>Effect on loss before tax for the period ended June 30, 2017 US\$000</b>	<b>Effect on other comprehensive income for the period ended June 30, 2017 US\$000</b>
Increase by 10%	(1)	(2,709)	-	-
Decrease by 10%	1	2,709	-	-

### **Foreign currency risk**

No sensitivity analysis has been prepared for carrying amounts of monetary assets and liabilities denominated in foreign currencies, as the Group does not expect any material effect arising from the effects of reasonably possible changes to the exchange rate for such foreign currencies.

### **Interest rate risk**

The balance of short term borrowings as at June 30, 2018 amounts to US\$0.2 million (December 31, 2017: US\$0.8 million). The 7.5% coupon on the Company's convertible bond facility, drawn down to US\$15.0 million as at June 30, 2018, is a fixed rate coupon (Note 17).

### **Liquidity risk**

The Group has reduced the loss for the six-month period ended June 30, 2018 by US\$9.8 million compared to the six-months ended June 30, 2017. Net cash used in operating activities for the six-month period ended June 30, 2018 is US\$(1.5) million compared to net cash used of US\$14.7 million in the six-months ended June 30, 2017. The Group's net current assets remain positive at US\$7.1 million (December, 2017: US\$13.1 million). The reduction in the net current assets is due to the financial liability of US\$4.6 million arising from accounting for the cash flow hedges and further cash consumed during the period of US\$1.5 million



# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

The table below analyses the Group's financial liabilities into relevant maturity groupings at the reporting date, based on the remaining period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due are equal to their carrying balances, as the impact of discounting is not significant. The maturity profile is:

	<b>June 31, 2018 US\$000</b>	<b>December 31, 2017 US\$000</b>
<b>Less than 1 year:</b>		
Trade & other payables, accruals and provisions	12,533	10,837
Other financial liabilities	4,587	-
Borrowings	184	829
	<u>17,304</u>	<u>11,666</u>
<b>Within 2 years:</b>		
Secured Convertible Bond (Note 17)	13,330	12,770
	<u>13,330</u>	<u>12,770</u>

### 19. SEGMENT INFORMATION

For management purposes, the Group operates in two business segments, namely exploration and production of oil and gas. The geographic focus of the business is Southeast Asia ("SEA") and Australia.

Revenue and non-current assets information based on the geographical location of assets respectively are as follows:

	<b>Revenue</b>		<b>Non-current assets</b>	
	<b>Six months ended June 30, 2018 US\$000</b>	<b>Six months ended June 30, 2017 US\$000</b>	<b>June 30, 2018 US\$000</b>	<b>December 31, 2017 US\$000</b>
<b>Producing Assets:</b>				
Australia	28,608	27,156	89,616	95,898
SEA - Indonesia	10,724	8,188	-	1,346
<b>Exploration and Evaluation Assets:</b>				
SEA - Vietnam	-	-	43,588	55,258
SEA - Philippines	-	-	50,486	50,415
<b>Others</b>	-	-	139	192
	<u>39,332</u>	<u>35,344</u>	<u>183,829</u>	<u>203,109</u>

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS for the six months ended June 30, 2018

	----- Six months ended June 30, 2018 -----				-----Six months ended June 30, 2017 -----			
	Production Assets	Exploration Assets	Corporate	Total	Production Assets	Exploration Assets	Corporate	Total
Gross revenue	39,332	-	-	39,332	35,344	-	-	35,344
Effective portion of cash flow hedge	(1,307)	-	-	(1,307)	-	-	-	-
Royalties	(3,549)	-	-	(3,549)	(3,157)	-	-	(3,157)
Net revenue	34,476	-	-	34,476	32,187	-	-	32,187
Production cost	(23,465)	-	-	(23,465)	(40,200)	-	-	(40,200)
Depletion, depreciation and amortisation	(5,013)	-	(51)	(5,064)	(4,870)	-	(29)	(4,899)
Staff costs	(2,139)	(344)	(4,322)	(6,805)	(3,921)	39	(2,350)	(6,232)
Other expenses	(1,963)	(1,564)	(563)	(4,090)	(2,352)	(103)	(1,299)	(3,754)
Impairment of asset	-	(11,902)	-	(11,902)	-	(7,667)	-	(7,667)
Purchase discount	-	-	-	-	-	-	789	789
Other income	-	-	56	56	-	-	799	799
Finance costs	(1,314)	(43)	(1,610)	(2,967)	94	(12)	(763)	(681)
<b>LOSS BEFORE TAX</b>	<b>582</b>	<b>(13,853)</b>	<b>(6,490)</b>	<b>(19,761)</b>	<b>(19,062)</b>	<b>(7,743)</b>	<b>(2,853)</b>	<b>(29,658)</b>

<sup>(1)</sup> As at June 30, 2018, revenue from one (June 30, 2017: one) customer, domiciled in Singapore, contributed to 73% (June 30, 2017: 77%) of the Group's total revenue.

# Jadestone Energy Inc.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended June 30, 2018

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### 20. RELATED PARTY TRANSACTIONS

During the period, the Group entities did not enter into any transactions with related parties other than the following:

#### Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended June 30, 2018 US\$000	Six months ended June 30, 2017 US\$000
Short-term benefits	1,796	2,002
Other benefits	255	805
Termination payments	-	125
Share-based payments	124	177
	<u>2,175</u>	<u>3,109</u>

### 21. EVENTS AFTER THE REPORTING PERIOD

#### Montara assets

On July 15, 2018, Jadestone Energy (Eagle) Pty Ltd, a wholly-owned subsidiary of the Company, as buyer, entered into an acquisition agreement with PTTEP Australasia, the seller. Under the terms of the acquisition agreement, the seller has agreed to sell certain assets, comprising the key equipment, facilities and reserves necessary for the proper operation of the Montara oil site, for a purchase price of US\$195.0 million, subject to working capital adjustments and additional contingent amounts.

The transaction is structured as an asset acquisition, thereby limiting Jadestone's exposure to any residual liabilities associated with the Seller's business in Australia, and has an economic effective date of January 1, 2018.

The assets are currently producing approximately 10.3mmbbl/d and the transaction is expected to close in September/October 2018.

#### Convertible bond

On August 1, 2018, the Company and Tyrus Capital Event S.à r.l. agreed, conditional upon admission to AIM and receipt of the listing proceeds, that the Company would redeem the convertible bond facility (Note 17), by paying US\$17.5 million to Tyrus. The convertible would thereupon terminate, and all associated security would be released. The convertible bond was redeemed on August 15, 2018.

#### Reserve based lending agreement

On August 2, 2018, Jadestone Energy (Eagle) Pty Ltd, as borrower, and the Company, as parent, entered into a secured reserve based lending agreement with Commonwealth Bank of Australia and

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended June 30, 2018

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Société Générale to borrow US\$120.0 million, repayable over the period to March 31, 2021. The debt finance will be used to part fund the acquisition of the Montara assets.

### **AIM listing and equity raise**

On August 8, 2018 the Company issued 239,711,474 new shares at 35 pence per share generating gross proceeds of approximately £83.9 million and listed on the Alternative Investment Market (AIM) a submarket of the London Stock Market.