

Jadestone Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the six months ended June 30, 2018

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The following Management Discussion and Analysis ("MD&A") of the operational and financial results and position of Jadestone Energy Inc. (the "Company", or "Jadestone") is prepared as at August 28, 2018, and should be read in conjunction with the Company's unaudited condensed interim financial statements (the "Financial Statements") as at, and for the six months ended June 30, 2018 and the Company's audited consolidated financial statements and related notes as at and for the nine months period ended December 31, 2017.

The Financial Statements for the six months ended June 30, 2018, and comparative information presented therein, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements are expressed in United States Dollars ("US\$") and have not been reviewed by the auditor.

FORWARD LOOKING STATEMENTS

The MD&A may contain forward looking statements which are based on management assumptions taking into account all known/unknown risks, uncertainties and any other factors which could cause the actual results, performance and achievements to be materially different. Management considers these assumptions to be reasonable but they may prove to be incorrect, so readers are cautioned not to place reliance on these forward looking statements.

CORPORATE OVERVIEW & STRATEGY

The Company is an oil and gas company incorporated in Canada. The Company's common shares are listed on the TSX Ventures Exchange (TSXV) and on August 8, 2018 the company listed on the Alternative Investment Market (AIM), a sub-market of the London stock market. Pursuant to the listing on AIM, 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. The majority of funds raised are to be used to part fund the Montara Assets acquisition (see further below). The Company trades on both markets under the symbol "JSE".

On August 2, 2018, the Company entered into a reserve based lending agreement with Commonwealth Bank of Australia and Société Générale to borrow US\$120 million, repayable over the period to March 31, 2021.

On August 1, 2018, the Company and Tyrus Capital Event S.à r.l. conditionally agreed, upon admission and listing on AIM, the Company would redeem the convertible bond facility by paying US\$17.45 million to Tyrus and the convertible terminates on receipt, and all associated security released. At June 30, 2018, the balance on the bond was drawn to US\$15 million and repayment subsequently occurred on August 15, 2018.

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 Stag Oilfield, which is in block WA-15-L, is located 60km offshore Western Australia in a water depth of approximately 47 metres. As at December 31, 2017 the field contained total proved plus probable reserves of 17.1 million barrels of oil (100% net to Jadestone).

The Ogan Komering PSC expired on 28 February 2018 and a temporary cooperation contract was entered into continuing the PSC terms pending the issue of the new PSC, which occurred on 20 May 2018, at which time Jadestone ceased to hold an interest in Ogan Komering. Jadestone, as the prior partner in the PSC with Pertamina, has been directed to proceed with direct negotiations with Pertamina for participation in the new PSC. Jadestone is progressing its participation discussions with Pertamina and the Board expects to reach satisfactory binding terms during H2 2018. Participation is anticipated to be backdated to the commencement of the new PSC on May 20, 2018. However, until definitive documentation is entered into, there can be no assurance that Jadestone will be successful in its negotiations for participation in the PSC, or the terms on which such participation may be available to Jadestone.

Jadestone's Southeast Asian portfolio includes discovered resources in two gas fields in Vietnam and two gas

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fields in the Philippines, along with a portfolio of exploration assets. The discoveries contain gross 2C contingent resources of 177.5 million barrels of oil equivalent (consisting of 966.4 billion standard cubic feet ("bscf") of gas and 16.4 million barrels of associated liquids.

The current Southeast Asia ("SEA") exploration and pre-development asset portfolio comprises approximately 6.9 million acres of awarded acreage and consists of two Service Contracts ("SCs") in the Philippines (SC-56 and SC-57) and two PSCs in Vietnam (Block 51 and Block 46/07).

On August 9, 2016, Mitra Energy (Vietnam 05-1) Pte Ltd, a wholly-owned subsidiary of the Company, as buyer signed a definitive sale and purchase agreement ("SPA") with Teikoku Oil (Con Son) Co. Ltd ("Teikoku"), a wholly-owned subsidiary of Inpex Corporation, as seller, for the acquisition of a 30% working interest in the Blocks 05-1b and 05-1c PSC ("Block 05-1 PSC"). On February 22, 2018, Teikoku delivered to Jadestone a purported notice of termination of the SPA, despite Teikoku having just received on February 9, 2018, the waiver by Vietnam Oil and Gas ("PVN"), of PVN's statutory pre-emption rights, held under Vietnamese law. The Company has not accepted Inpex's alleged termination, and views the obligations of both parties under the SPA as continuing. The Company maintains its rights under the SPA and is assessing its options, including remedies available through legal action.

On July 15, 2018 the Company signed a binding SPA to acquire the Montara Assets, located in shallow water offshore Australia, from PTTEP Australasia. The Montara project is located in production licences AC/L7 and AC/L8 in the Timor Sea. The Montara Assets comprise three separate fields which are Montara, Skua and Swift/Swallow, produced through a centralised FPSO, which is currently owned by PTTEP Australasia and will be transferred to Jadestone on completion of the Acquisition. Following completion, operatorship will be transferred to Jadestone who will hold a 100% operating interest in the Montara Assets. As at 31 December 2017, the Montara Assets had 2P reserves of 28.2 million barrels of oil and is currently producing approximately 10.3 mbbls/d with all available wells (Montara wells, Skua 10ST2 and Swift N1). Jadestone is acquiring the Montara Assets for a cash consideration of US\$195.0 million, prior to customary working capital adjustments and additional contingent amounts.

Jadestone continues to evaluate acquisition growth opportunities in its core target basin areas within the Asia Pacific region, in line with its strategy.

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 2600 Oceanic Plaza, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1 Canada.

OPERATIONAL ACTIVITIES

Producing assets

Australia

Stag Oilfield

For three months ended June 30, 2018, Stag production averaged 2,814 bbls/d compared to 2,570 bbls/d for the same period in the prior year. This represents a 9% increase due to improved uptime this past quarter. The June 2018 quarter also included 11 days of planned shutdown activities, which resulted in approximately 38,000 bbls or 417 bbls/d of deferred production.

For the six months ended June 30, 2018, Stag production averaged 2,734 bbls/d compared to 2,477 bbls/d for the same period in the prior year. This represents an increase of 10% due to increased uptime this year and well performance associated with workover pump repairs and downtime in the prior year. In addition, the current six month period was impacted by marine breakaway coupling incidents early in the year and the 10 day planned shutdown activities which resulted in approximately of 54,000 bbls or 298 bbls/d of deferred production (for the first half of 2018).

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Indonesia

Ogan Komering PSC

The Ogan Komering PSC expired on February 28, 2018 and a temporary cooperation contract was entered into, continuing the PSC terms, pending the issue of the new PSC. The new PSC was issued to Pertamina on May 20, 2018, at which point Jadestone no longer held an interest in the PSC.

Resultant production data for the Ogan Komering PSC for the period up to, and including May 19, 2018:

- Average second quarter production of 1,425 boe/d¹, compared to the second quarter of 2017 of 1,489 boe/d.
- Average first half production of 1,439 boe/d², compared to first half production in the prior year of 1,485 boe/d.

Jadestone is progressing its participation discussions with Pertamina and the Company expects to reach satisfactory binding terms during H2 2018. Participation is anticipated to be backdated to the commencement of the new PSC on May 20, 2018. However, until definitive documentation is entered into, there can be no assurance that Jadestone will be successful in its negotiations for participation in the PSC or the terms on which such participation may be available to Jadestone.

Exploration, appraisal and pre-development assets

Vietnam

Blocks 51 and 46/07

Jadestone holds an operated 100% working interest in the Block 51 PSC and in the Block 46/07 PSC, both in the Malay-Tho Chu basin offshore Vietnam. The Company has made two gas/condensate discoveries, being the U Minh and Tho Chu fields on Block 51, as well as the Nam Du gas discovery on Block 46/07.

Prior to May 1, 2017, these blocks were held jointly with Petrovietnam Exploration and Production ("PVEP"), on a 70:30 Jadestone/PVEP working interest basis. Effective May 1, 2017, PVEP relinquished its 30% working interests in Block 46/07 and Block 51, leaving Jadestone as operator with a 100% working interest. The process for amending Block 51 and Block 46/07 for PVEP's withdrawal is continuing.

Jadestone's priority is to develop the Nam Du and U Minh fields, with a view to selling domestic gas in Vietnam. Accordingly, on May 21, 2018, the Outline Development Plan ("ODP"), proposing a standalone joint development of these fields, was approved by the Vietnam Ministry of Industry and Trade ("MOIT"). Jadestone is targeting to make the final investment decision and gain approval of the field development plan ("FDP") by MOIT by Q3 2019. The company has expanded the project management team and is progressing front end engineering and design, FDP technical studies, and negotiation of the pertinent commercial agreements, including the gas sales agreement.

In addition, the Company plans to drill an additional well on Block 46/07 to further appraise the Nam Du field and facilitate transition of 3C resource to 2C status. The well will be retained for future use as a gas production well. Under the current contract (including extensions granted to date), the well was required to be drilled prior to June 29, 2018. However with PVN and MOIT support, the Company has submitted a request to the Vietnam Government for a further two-year extension to June 2020, to align the drilling programme with Jadestone's FDP of the Nam Du field.

Block 51 is currently held in a Suspended Development Area ("SDA") status. The portion of the block

¹ Based on 49 days of production from April 1, 2018 to expiry of the PSC on May 19, 2018.

² Based on 139 days of production from January 1, 2018 to expiry of the PSC on May 19, 2018.

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containing the U Minh field will be converted to a development/production area upon approval of the FDP. The remainder of the block, including the Tho Chu field, will remain in SDA status until June 11, 2021. The Tho Chu field will be subject to a later development plan.

Block 127

Jadestone operates Block 127 PSC with a 100% working interest. This predominantly deepwater block covers an area of 9,000 km² and is located at the southern end of the Phu Khanh Basin, off the east coast of Vietnam. During the quarter ended March 31, 2018, the Company performed a review of its asset base and as a result of that review, decided to relinquish Block 127 at the end of the current exploration phase on May 24, 2018. Having completed all minimum work commitments, Jadestone informed PVN of its relinquishment decision on April 4, 2018, and is proceeding with the relinquishment process, in accordance with all applicable Vietnamese laws. Accordingly, the Company recorded an impairment charge of US\$11.9 million during the three months ended March 31, 2018, thus reducing the book value of Block 127 to nil.

Block 05-1PSC

On August 9, 2016, the Company announced that a wholly-owned subsidiary of the Company, as buyer, and the Company, as guarantor, signed a definitive agreement with Teikoku, a wholly-owned subsidiary of Inpex, as seller, to acquire a 30% working interest in the Block 05-1 PSC for a total cash consideration of US\$14.3 million and subject to normal closing adjustments.

On February 22, 2018, Teikoku delivered to Jadestone a purported notice of termination of the SPA, despite Teikoku having just received on February 9, 2018, the waiver by PVN, of PVN's statutory pre-emption rights held under Vietnamese law. The Company has not accepted Inpex's alleged termination and views the obligations of both parties under the SPA as continuing. The Company maintains its rights under the SPA, and is assessing its options, including remedies available through legal action.

Philippines

Service Contract 56

Jadestone holds a 25% interest in SC 56 in partnership with operator Total E&P Philippines B.V. ("Total"). Four wells have previously been drilled on SC 56, resulting in the Dabakan and Palendag discoveries.

In September 2012, Total farmed into SC 56 and assumed a 75% interest, and in August 2014 formally confirmed its intention to drill an exploration well on the Halcon prospect. As a result of the Halcon confirmation, operatorship was transferred to Total effective October 25, 2014. The Company views Halcon as an economically viable prospect with significant resource potential.

Total has subsequently informed Jadestone that it does not intend to drill an exploration well on the Halcon prospect. In the December 2017 quarter, the Company commenced an arbitration action against Total, with the Singapore International Arbitration Centre, claiming failure by Total to drill the well and resultant damages.

The current exploration period on the block runs until September 1, 2020. Total's 2018 work programme for SC56, as operator, includes a two-phase development study. This includes subsurface geological and geophysical work to revisit resources and development assumptions, to optimise development schemes and minimise technical costs.

Indonesia

Jadestone has been managing and wherever possible accelerating the ongoing relinquishment of the legacy Indonesian exploration portfolio, consistent with the Company's strategy to exit longer dated, higher risk, and/or non-carried exploration.

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Bone PSC

Jadestone held a 60% operating interest in the Bone PSC Block, offshore Sulawesi with Azimuth Indonesia Limited ("Azimuth"), holding the remaining 40%.

On May 4, 2017, a wholly-owned subsidiary of the Group, Mitra Energy (Indonesia Bone) Ltd, signed a withdrawal agreement with Azimuth, for the transfer of the Company's 60% working interest and operatorship of the Bone PSC, to Azimuth. The transfer is effective from April 15, 2017, but remains subject to final government approval. The Company had recorded a full impairment of the Block value in the financial year ended March 31, 2017.

SELECTED FINANCIAL INFORMATION

The following table provides selected financial information of the Company, which was derived from, and should be read in conjunction with, the unaudited Financial Statements for the three months ended June 30, 2018.

<i>QUARTERLY SUMMARY (US\$000s, except where indicated)</i>	Three months ended							
	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016
Production (boe/day)	4,239 ³	4,101	4,406	4,286	4,059	3,857	2,818	-
Revenues	18,333	20,999	20,926	21,383	18,134	17,210	17,932	-
Net earnings/(loss)	(4,912)	(16,593)	778	(3,930)	(11,778)	(19,485)	(8,586)	(3,086)
—Per share: basic & diluted	(0.03)	0.07	0.00	(0.02)	(0.05)	(0.09)	(0.05)	(0.03)
Funds from/(used in) operating activities	(2,052)	77	1,186	1,894	(8,130)	(6,518)	5,268	(3,669)
—Per share: basic & diluted	(0.00)	0.00	0.01	0.01	(0.04)	(0.03)	(0.03)	(0.04)

Highlights

Production

During the quarter ended June 30, 2018 production averaged 4,239 boe/d³ (three months to March 31, 2018: 4,101 boe/d), largely due to increased uptime at Stag, partly offset by Stag's planned 11 day shutdown in April.

The comparison of second quarter 2018 to the same quarter in 2017, 4,239 boe/d versus 4,059 boe/d respectively, is also largely reflective of higher uptime at Stag.

Production increased in the six months to June 30, 2018 compared to the same period in the prior year: 4,174 boe/d⁴ versus 3,962 boe/d. The increase was again largely due to the higher uptime at Stag in the first half of 2018.

Benchmark commodity price and realised price

The three and six month period Brent benchmark prices to June 30, 2018 increased to US\$74.56/bbl and

³ Based on average production for Stag for the full three months to June 30, 2018 of 2,814 bbls/d and average production for Ogan Komerling PSC for the 49 days in the quarter to PSC expiry on May 19, 2018.

⁴ Based on average production for Stag for the full six months to June 30, 2018 of 2,734 bbls/d and average production for Ogan Komerling PSC for the 139 days in the period to PSC expiry on May 19, 2018.

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US\$70.79/bbl respectively, compared to US\$50.13/bbl and US\$52.10/bbl respectively in the prior year. The movement in the average realized price tracked the benchmark price in the three and six months to June 30, 2018, as the average realized price increased to US\$67.72/boe and US\$65.15/boe (three and six months ended June 30, 2017: US\$49.96/boe and US\$52.72/boe respectively).

The average realized price is slightly below the benchmark due to fixed price gas contracts, and liquids discounted to Brent at Ogan Komering.

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. There were no hedges in previous periods.

Overall performance

- Net loss for the three and six month periods has been reduced to US\$6.4 million (three months to June 30, 2017: net loss of US\$11.8 million) and US\$23.1 million (six months to June 30, 2017: net loss of US\$31.3 million) respectively, in part due to higher revenues generated by higher production and commodity prices.
- Production costs declined comparing first quarter to second quarter 2018 from US\$12.8 million to US\$10.4 million reflecting the expiry of Ogan Komering, and Stag's ongoing focus on operational efficiencies and cost savings.
- There were two liftings at Stag in the six months ended 30 June 2018, with a further three expected in the period July to December 2018.
- Funds used in operating activities for the six month period ended June 30, 2018, improved to US\$(2.5) million versus the same period in the prior year of US\$(14.9) million, due to improvements in production rates, commodity prices and production costs, among other factors.

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RESULTS OF OPERATIONS

	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	16,424	15,702	34,476	32,187
Production cost	(10,657)	(22,188)	(23,465)	(40,200)
Depletion, depreciation and amortisation	(2,264)	(2,476)	(5,064)	(4,899)
Staff costs	(3,780)	(3,259)	(6,805)	(6,232)
Other expenses	(1,645)	(1,784)	(4,090)	(3,754)
Impairment of assets	-	-	(11,902)	(7,667)
Other income	44	681	56	799
Purchase discount	-	-	-	789
	(1,878)	(13,324)	(16,794)	(28,977)
Finance costs	(1,988)	(669)	(2,967)	(681)
LOSS BEFORE TAX	(3,866)	(13,993)	(19,761)	(29,658)
Taxation expense	(1,046)	2,215	(1,742)	(1,605)
LOSS FOR THE PERIOD	(4,912)	(11,778)	(21,503)	(31,263)
Loss per ordinary share:				
Basic and diluted (US\$)	0.03	0.05	0.10	0.14
Loss for the period	(4,912)	(11,778)	(21,503)	(31,263)
Other comprehensive income, net of tax:				
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	1,180	-	1,475	-
Total comprehensive loss attributable to owners of the Company	(2,753)	-	(3,441)	-
	(7,665)	(11,778)	(24,944)	(31,263)

Gross revenue

Revenue for the three months ended June 30, 2018 is US\$18.3 million, compared to US\$18.1 million for the same quarter in the prior year due to:

- Increase in average net realized prices to US\$67.72/boe versus US\$49.96/boe for the same quarter in the prior year, due to increasing commodity benchmark prices (three months to June 30, 2018: US\$74.56/bbl)

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versus US\$50.13/bbl for the three months to June 30, 2017).

- Partly offset by lower liftings of 270,414 boe in the three months to June 30, 2018 (three months to June 2017: 362,591 boe), due to the expiry of the Ogan Komering PSC on May 19, 2018 and slightly lower Stag liftings.

Revenue for the six months ended June 30, 2018 is US\$39.5 million, compared to US\$35.3 million in the prior year period, due to:

- Increase in average net realised prices to US\$65.15/boe compared to US\$52.72/boe for the same period in the prior year due to increasing commodity benchmark prices (six months to June 30, 2018: US\$70.79/boe versus US\$52.10/boe for the six months to June 30, 2017).
- Higher production of 4,174 boe/d (six months to June 30, 2017: 3,962 boe/d) due to the differing number of days of production at Ogan Komering arising from the acquisition date of March 9, 2017 and PSC expiry date of May 19, 2018.
- Partly offset by lower liftings at Stag in the six months to June 30, 2018 of 403,627 bbls (six months to June 30, 2017: 489,186 bbls) due to the June 2018 lifting delayed until July 2018. Therefore, the third quarter 2018 lifting is anticipated to exceed the prior year comparable.

Royalties

The royalty rate in Indonesia for the three months ended June 30, 2016 is 22%, versus 39% in the same period for the prior year, due to the higher cost recovery in 2018.

The royalty rate for the six months ended June 30, 2016 is 33% versus 39% in the same period in the prior year, due to differences in cost recovery.

Hedges

The hedging contracts resulted in a US\$1.1 million charge during the quarter ended June 30, 2018 (three months to June 30, 2017: nil) due to the benchmark price being above the average hedge contract price of US\$64.80/bbl.

Production costs

Production costs reduced by US\$11.5 million in the three month period ended June 30, 2018, compared to the same period in 2017, due to:

- Stag workovers experienced technical difficulties in 2017 due to casing integrity issues (US\$7.1 million).
- Cost savings and efficiencies obtained in 2018 through taking control of operatorship (US\$2.7 million).
- Ogan Komering lower operating expenses due to the shorter business period arising from PSC expiry on May 19, 2018 (US\$1.7 million).

Production costs reduced by US\$16.7 million in the six month period ended June 30, 2018 due to the following factors:

- Lower stag workover activity in 2018 (US\$6.6 million).
- Cost savings and efficiencies in FSO vessel expenses, air marine and onshore support, and other operating costs (US\$9.7 million).
- Ogan Komering PSC expiry (US\$0.4 million)

Impairment of assets

There was no impairment provision in either second quarter 2018 or in the same quarter of the previous year.

During the 6 months ended June 30, 2018, the Company decided to relinquish Vietnamese Block 127 at the end of the current exploration phase. An impairment charge of US\$11.9 million was recorded in the quarter to

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March 2018, thus reducing its book value to nil.

The following impairments were recognised in the six months ended June 30, 2017:

- Bone (Indonesia), during the period management decided to withdraw from the block and handover its interests to Azimuth. (US\$6.0 million).
- Inventory casings in Vietnam for (US\$1.7 million) arising from an arrangement made with an external purchaser for the disposal of inventories.

Finance costs

Finance costs for the three months ended June 30, 2018 are US\$2.0 million (three months to June 30, 2017: US\$0.7 million), with the US\$1.3 million increase over the same period in the prior year in large part due to the US\$1.0 million fair value revaluation of the embedded option in the Tyrus convertible bond (three months to June 30, 2017: nil), and US\$0.3 million interest on the drawn portion of convertible bond (three months to June 30, 2017: US\$0.0 million).

For the six months ended June 30, 2018, finance costs total US\$3.0 million (six months to June 30, 2017: US\$0.7 million), with the US\$2.3 million increase again, in large part, due to a US\$1.3 million fair value revaluation of the embedded option in the Tyrus convertible bond (six months to June 30, 2017: nil), and US\$0.6 million interest on the drawn portion of the convertible bond (six months to June 30, 2017: US\$0.0 million).

Taxation

Taxation expense for the three month period ended June 30, 2018 is US\$1.0 million (three months to June 30, 2017: tax credit of US\$2.2 million). The movement of US\$3.2 million relates to:

- Stag deferred PRRT of US\$2.5 million due to utilization of tax credits.
- Stag deferred tax increase US\$0.7 million relating to timing differences through the utilization of income tax losses.
- Increased Indonesian corporate tax of US\$0.5 million (three months to June 30, 2017: US\$ 0.3 million) due to higher operating profits generated through increased commodity prices.

During the six months ended 30 June 2017, the tax expense is US\$1.7 million (six months to June 30, 2017: US\$1.6 million), with the movement of US\$0.1 million related to movements in deferred tax.

FINANCIAL POSITION

The following provides selected financial information of the Company, which was derived from, and should be read in conjunction with the unaudited Financial Statements for the six months ended June 30, 2018:

	As at June 30, 2018 US\$000	As at December 31, 2017 US\$000
Total assets	208,215	227,888
Non-current assets	183,830	203,109
Current assets	24,385	24,779
Non-current liabilities	107,384	108,024
Current liabilities	17,304	11,666
Shareholders' equity	83,527	108,198

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Non-current assets

Non-current assets as at June 30, 2018 are US\$183.8 million (December 31, 2017: US\$203.1 million), a reduction of US\$19.3 million compared to the previous period, due to:

- The impairment of Block 127 due to commencing relinquishment (US\$11.9 million)
- Depletion charges for the period (US\$5.1 million)
- A decrease in the Stag asset retirement obligation (US\$2.8 million)
- Increase deferred tax credit adjustments (US\$0.5 million).

Current assets

Current assets as at June 30, 2018 decreased by US\$0.5 million to US\$24.3 million from the balance as at December 31, 2017 of US\$24.8 million. Stag's June 2018 lifting was delayed from June into July; inventory has therefore increased, but cash is US\$3.9 million lower. The lifting would have generated additional cash and made the balances broadly comparable.

Non-current liabilities

Provision for asset restoration obligations ("ARO")

The Group's ARO in respect of future costs of decommissioning of the Stag Oilfield facilities reduced by US\$2.7 million due to changes in the economic assumptions as part of the quarterly technical review, partly offset by the regular accretion expense of US\$1.0 million.

Other payables

Other payables have reduced to US\$6.7 million as at June 2018, from US\$7.3 million as at December 2017, due to the quarterly technical review of the FPSO discount rate and economic assumptions.

Deferred tax liabilities

The deferred tax liability originated from the acquisition of the Ogan Komerang PSC, and arose from timing differences in unrecovered depreciated costs. During the six month period ended June 30, 2018, the balance of the deferred tax liability was reduced to zero in conjunction with the expiry of the PSC license.

Secured convertible bonds and derivative financial instruments

The secured convertible bond increased by US\$1.9 million from US\$15.8 million as at December 2017, to US\$17.7 million as at June 2018. The accretion expense increased US\$0.6 million, as we move closer to the bond's maturity date. The fair value of the embedded derivative has been restated to its estimated current market rate, creating a fair value adjustment of US\$1.3 million in the period.

Current liabilities

Trade & other payables, accruals & provisions

Trade and other payables, accruals and provisions increased by US\$1.7 million to US\$12.5 million at June 2018, compared to US\$10.8 million at December 2017, due to an increase in trade payables of US\$0.7 million, other payables of US\$0.8 million, and provisions of US\$0.2 million.

Borrowings

During the period, borrowings related to insurance premiums were repaid resulting in a movement of US\$0.6 million, and a closing balance at 30 June 2018 of \$0.2 million, which will be settled in the next quarter.

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Other financial liabilities

The company 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, the balance of US\$4.6 million represents the fair value of the cash flow hedge.

Shareholders' equity

Shareholders equity reduced by US\$24.7 million compared to the prior fiscal year due to the current six month period loss of US\$21.5 million, other comprehensive income of US\$3.4 million, and share based payments of US\$0.2 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash at bank

At June 30, 2018 cash at bank was US\$6.6 million compared with US\$15.1 million as at June 30, 2017. The following table provides selected cash flow information for the periods indicated:

CASH FLOW	6 months ended June 30, 2018 US\$000	6 months ended June 30, 2017 US\$000
Cash used in operating activities	(1,457)	(14,649)
Cash used in investing activities	(670)	(4,648)
Cash (used in)/provided by financing activities	(709)	9,138
Decrease in cash during the period	(2,836)	(10,159)
Effect of translation on foreign currency cash and cash equivalents	-	(690)
Cash at bank beginning of period	10,450	26,243
Cash at bank end of period	6,565	15,112

Net cash used in the six months ended June 30, 2018 reduced by US\$7.3 million to US\$2.8 million (six months ended June 30, 2017: net cash used of US\$10.1 million).

The decrease in cash used in operating activities improved from US\$14.6 million to US\$1.5 million, due to lower operating expenses and higher revenues, offset with higher finance costs.

Working capital

Working capital is the amount by which current assets exceed current liabilities. At June 30, 2018 the Company's working capital remains positive at US\$7.0 million. However, it was reduced by US\$6.0 million compared to December 31, 2017. A breakdown of the Company's working capital is as follows:

	As at June 30, 2018 US\$000	As at December 31, 2017 US\$000	Change US\$000
Current assets	24,385	24,779	(394)
Current liabilities	17,304	11,666	(5,638)
Net working capital	7,081	13,113	(6,032)

The US\$6.0 million reduction is mainly due to the financial liability of the cash flow hedges of US\$4.6 million

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arising from Stag's expected higher crude oil prices which averaged US\$78.28/bbl compared to the hedged price of US\$64.60/bbl for the first half of 2018.

Secured convertible bond facility

On November 8, 2016, Jadestone entered into a US\$28.0 million convertible bond facility (the "Facility") with Tyrus Capital Event S.à r.l. ("Tyrus"). Under the terms of the Facility, Jadestone has the ability to draw down tranches of US\$5.0 million, subject to Tyrus' approval, and any amounts drawn down will bear interest at the rate of 7.5% per annum, payable quarterly, along with a 3.0% issue discount. The Facility matures 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. Tyrus also has the option to convert any principal owing under the Facility at any time prior to maturity, and the option to require the Company to draw down all undrawn amounts at any time prior to 15 days from maturity.

As at June 30, 2018 the drawn down amount of the convertible bond remains at US\$15.0 million (December 31, 2017: US\$15.0 million). The Company has subsequently redeemed the Facility, see further events after the reporting period.

BUSINESS RISKS AND UNCERTAINTIES

Jadestone, like all companies in the oil and gas industry, operates in an environment subject to inherent risks. Many of those risks are beyond the ability of a company's control, including those associated with exploring for, developing and producing economic quantities of hydrocarbons, volatile commodity prices, governmental regulations and environmental matters.

For detailed analysis on how the company manages these risks, see the Company's annual financial statements, December 31, 2017. The Company has processes and systems in place designed to identify the principal risks of the business and establish what it considers reasonable mitigation strategies wherever possible. The Company's operational and environmental risks have not materially changed since December 31, 2017, which were detailed in the Company's MD&A for the period year ended December 31, 2017.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial instruments that are not measured at fair value, comprise cash and bank balances, other receivables, other payables and accruals. As at June 30, 2018 and December 31, 2017 management considers that the carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair value.

The Group drew down US\$15.0 million from the US\$28.0 million convertible bond facility in June and July 2017. As at June 30, 2018, the carrying value of the convertible bonds was US\$13.3 million and the carrying value of the derivative liability component amounted to US\$4.4 million.

Interest rate risk

The Group's interest rate exposure arises from some of its cash and bank balances and short-term borrowings. The Group's other financial instruments are non-interest bearing or fixed rate, and are therefore not subject to interest rate risk.

Jadestone holds some of its cash in interest bearing accounts and short-term deposits. Interest rates currently received are at historically relatively low levels. Accordingly, a downward interest rate movement would not cause significant exposure to the Group.

The balance of short term borrowings as at June 30, 2018 amounts to US\$0.2 million (December 31, 2017: US\$0.8 million).

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The 7.5% coupon on the Company's convertible bond facility, is a fixed rate coupon.

Any interest rate movement would not cause significant exposure to the Group.

Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between United States Dollars ("US Dollar") and foreign currencies will affect the fair value or future cash flows of the Company's financial assets or liabilities.

Cash and bank balances are generally held in the currency of likely future expenditures to minimise the impact of currency fluctuations. It is the Group's normal practice to hold the majority of funds in US Dollars in order to match the Group's revenue and expenditures. The Company's US\$28.0 million convertible debt facility is a US Dollar denominated instrument.

In addition to United States Dollars, the Group transacts in various currencies, including Canadian Dollars, Singapore Dollars, Australian Dollars, Indonesian Rupiah, Vietnamese Dong, and Malaysian Ringgit. No sensitivity analysis has been prepared for carrying amounts of monetary assets and liabilities denominated in these foreign currencies as the Group does not expect any material effect arising from reasonably possible changes to the exchange rate for these foreign currencies.

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 the Group had entered into a commodity hedge 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 oil hedge, over the period July 1, 2018 to December 31, 2018, at Brent ICE crude fixed at US\$65.00/bbl.

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

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 overleaf 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.

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Gain/(loss)	Effect on loss before tax for the quarter ended June 30, 2018 US\$000	Effect on other comprehensive income for the quarter ended June 30, 2018 US\$000	Effect on loss before tax for the quarter ended June 30, 2017 US\$000	Effect on other comprehensive income for the quarter ended June 30, 2017 US\$000
Increase by 10%	(1)	(2,709)	0	0
Decrease by 10%	1	2,709	0	0

Credit risk

Credit risk represents the financial loss that the Company would suffer if a counter party in a transaction fails to meet its obligations in accordance with the agreed terms.

The Group's trade and other receivables are primarily with (i) counterparties to oil and gas sales, (ii) governments for recoverable amounts of value added taxes, and with (iii) joint venture partners in the oil and gas industry.

The Company actively manages its exposure to credit risk, granting credit limits consistent with the financial strength of the Group's counterparties and customers, requiring financial assurances as deemed necessary, reducing the amount and duration of credit exposures, and via close monitoring of relevant accounts.

The Group trades only with recognised, creditworthy third parties. Where Jadestone has operated joint ventures on behalf of partners it sought to recover the appropriate share of costs from these partners. The majority of the partners in these ventures are well established oil and gas companies. In the event of non-payment, Jadestone had recourse to increase its venture share under the operating agreements.

Stag Oilfield production, our largest credit risk exposure, is currently sold to an investment grade customer in the energy sector, subject to customary industry credit risk.

The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all of its financial obligations as they become due. This includes the risk that the Company cannot generate sufficient cash flow from producing assets, or is unable to raise further capital in order to meet its obligations.

The Company manages its liquidity risk by optimising the positive free cash flow from its producing assets (with full legal ownership of Stag effective from July 10, 2017), on-going cost reduction initiatives, drawing down on the convertible bond facility to meet necessary capital expenditure needs, merger and acquisition strategies, and bank balance on hand.

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 Company believes it has sufficient liquidity to meet all reasonable scenarios of operating and financial performance for the next 12 months.

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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 within 12 months equal their carrying balances as the impact of discounting is not significant.

	June 30, 2018 US\$000	December 31, 2017 US\$000
<u>Less than 1 year</u>		
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>
<u>Within 2 years</u>		
Convertible Bond	13,330	12,770
Derivative financial instruments	4,360	3,067
	<u>17,690</u>	<u>15,837</u>

The Company's derivative financial instruments comprise the convertible bond amounting to US\$4.4 million (December 31, 2017: US\$3.1 million).

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the year, 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 year 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>

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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, as 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, the ("Montara Assets") 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 businesses in Australia, and has an economic effective date of January 1, 2018.

The Montara Assets comprise three separate fields which are Montara, Skua and Swift/Swallow, produced through a centralised FPSO, the Montara Venture, which is owned by PTTEP Australasia and will be transferred to Jadestone on completion of the acquisition. Following completion of the acquisition and transfer of operatorship, Jadestone will hold a 100% operating interest in the Montara Assets. As at December 31, 2017, the Montara Assets had 2P reserves of 28.2 million barrels of oil (gross and net) and is currently producing approximately 10.3 mbbbls/d with all available wells (Montara wells, Skua 10ST2 and Swift N1) back on production.

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 by paying US\$17.5 million to Tyrus. The convertible bond 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 (RBL) agreement with Commonwealth Bank of Australia and Société Générale to borrow US\$120.0 million, repayable over the period to March 31, 2021. The RBL will be used to part fund the acquisition of the Montara Assets and is priced at LIBOR plus 3.0%. The Company believes the debt to equity ratio of the Montara Assets acquisition, being circa 62% debt and 38% equity, represents a prudent level of leverage to ensure balance sheet strength even during periods of low prices. The gross debt also represents just 25% of the NPV10 of US\$479.5 million of the Montara Assets. Additionally, the Company will hedge a significant portion of Montara oil production in the first 24 months from transaction closing, to provide downside commodity price protection.

AIM listing and equity raise

On August 8, 2018 the company listed 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 sub-market of the London stock market.

The Company listed on AIM to part fund the equity component of the announced acquisition of the Montara Assets, to broaden its shareholder investor base, and to increase trading liquidity.

The proceeds from the equity raise will be used by the Company for the following purposes (refer overleaf):

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Purpose	US\$000
Equity funding component for the acquisition of the Montara Assets	80
Partial funding of the repayment of the convertible facility	15
Partial funding for drilling of one infill well at Stag	5
Working capital and transaction costs	10
	<u>110.0</u>

ADDITIONAL INFORMATION

Additional information relating to the Company, including Management Information Circulars, NI 51-101 oil and gas disclosures, material change reports, and other important items of disclosure, and previous interim and annual consolidated financial statements are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.