Jadestone Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the nine months ended September 30, 2018

The following management's 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 November 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 nine months ended September 30, 2018, and the Company's audited consolidated financial statements and related notes as at and for the nine months ended December 31, 2017.

The Financial Statements for the nine months ended September 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

This MD&A contain forward-looking statements which are based on management assumptions taking into account all known 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

Jadestone is an upstream oil and gas company incorporated in Canada. The Company's ordinary shares are listed on the TSX Ventures Exchange ("TSX-V") and on August 8, 2018 the company listed on the Alternative Investment Market ("AIM"), a sub-market of the London Stock Exchange. Pursuant to the listing on AIM, the Company issued 239,711,474 new ordinary shares, raising gross proceeds of approximately £83.9 million at a price of 35 pence per share. The majority of funds raised, have been 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 loan ("RBL") agreement with Commonwealth Bank of Australia and Société Générale to borrow US$120.0 million, repayable quarterly 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, that the Company would redeem its convertible bond facility by paying US$17.4 million to cancel the convertible bond and release all associated security. On August 15, 2018 the bond was repaid and there are no remaining related liabilities outstanding on September 30, 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).

On September 28, 2018, the Company acquired the Montara Assets from PTTEP Australasia for total consideration of US$149.1 million consisting of cash of US$133.1 million and a provision for potential future contingent payments of US$16.0 million. The contingent payments are based on the average annual Brent crude price being above US$80 in one or both of 2019 and 2020, and the payments are stated at their fair value. The Montara project is located in production licences AC/L7 and AC/L8 in the Timor Sea, in a water depth of approximately 77 metres. The Montara Assets, comprising the three separate fields being Montara, Skua and Swift/Swallow, are produced through a centralised FPSO. As at December 31, 2017, the Montara Assets had proven plus probable reserves of 28.2 million barrels of oil (100% net to Jadestone).

The Ogan Komering PSC, onshore South Sumatra, expired on February 28, 2018 and a temporary cooperation contract was entered into, continuing the PSC terms pending the issue of the new PSC, which occurred on May 20, 2018, at which time Jadestone ceased to hold an interest in the PSC. Jadestone, as the prior partner in the PSC with Pertamina, has been directed by SKK Migas (Indonesia Regulator) to proceed with direct negotiations with Pertamina for participation in the new PSC. Jadestone is progressing its participation discussions with Pertamina. In parallel, Pertamina is working with the Attorney General's office and other related Government of Indonesia officials to ensure the process of upstream divestiture meets governance requirements.

As a consequence, the process of reaching a binding agreement with Pertamina on Ogan Komering is now expected to be finalized later in H1 2019. 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 three gas fields in Vietnam and two gas fields in the Philippines, as part of a legacy 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 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 ("SC") in the Philippines (SC56 and SC57) 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 through legal action.

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 #13-01 Springfield Tower, Singapore 079909. The registered office of the Company is 10th Floor, 595 Howe Street Vancouver, British Columbia V6C 2T5 Canada.

OPERATIONAL ACTIVITIES

<u>Producing assets</u>

Australia

<u>Stag Oilfield</u>

For the three months ended September 30, 2018, Stag production averaged 3,080 bbls/d, compared to 2,814 bbls/d in Q2 2018 and 2,847 bbls/d for the September quarter in the prior year. This represents an 8% increase quarter-on-quarter, in part due to 11 days of planned shutdown activities in the June quarter, which resulted in approximately 38,000 bbls of deferred production.

During the three month period ended September 30, 2018 there were two Stag liftings for a total of 422,267 bbls, compared to one lifting in the June 2018 quarter of 200,890 bbls, while in the September 2017 quarter there was one lifting of 274,349 bbls. This increased sales volumes to 4,590 bbls/d during the quarter, compared to 2,208 bbls/d for Q2 2018, and 2,982 bbls/d for Q3 2017.
For the nine months ended September 30, 2018, Stag production averaged 2,851 bbls/d, compared to 2,602 bbls/d for the same period in the prior year. This represents an increase of 10% in part due to increased uptime this year, and well performance associated with workover pump repairs and downtime in the prior year. In addition, the current nine month period was impacted by marine breakaway coupling ("MBC") incidents early in the year and the 10 day planned shutdown activities which resulted in approximately of 54,000 bbls or 198 bbls/d of deferred production for the nine months to September 30, 2018.

Montara Assets

On September 28, 2018 Jadestone completed the acquisition of the Montara Assets from PTTEP Australasia for a total consideration of US$149.1 million, after working capital adjustments. The consideration consisted of cash of US$133.1 million and US$16.0 million being the estimated current fair value of two potential contingent payments:

- If the average dated Brent price in 2019 is US$80/bbl or higher, a payment of US$20 million will be payable at the start of 2020.
- If the average dated Brent price in 2020 is US$80/bbl or higher, a payment of US$10 million will be payable at the start of 2021.

The estimated fair value of the contingent payments is based on a Monte Carlo option simulation model.

Following completion, the Company obtained 100% beneficial ownership of the assets, and contracted PTTEP to operate the field under an operator and transitional services agreement until regulatory approvals and transfers are finalized.

Production averaged 7,585 bbls/d for the three days of the quarter (September 28-30) during which Jadestone owned the Montara Assets.

The provisional purchase price allocation for the assets acquired is set out in the table below.

	As at September 28, 2018 US$000
Non-current assets	
Oil and gas properties	396,804
Current assets	
Inventory – crude oil	17,195
Inventory – materials	18,178
Other receivables	4,917
	437,094
Current liabilities	
Trade and other payables	(4,897)
Non-current liabilities	
Provision for asset restoration obligations	(197,839)
Deferred liabilities	(84,788)
Other provisions	(432)
	(287,956)
Net assets	149,139

Indonesia

Ogan Komering PSC

The Ogan Komering PSC, on South Sumatra 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.

The Company's interest in production for the Ogan Komering PSC, for the period up to September 30, 2018, is as follows:

- Average September 2018 quarter production is nil, compared to third quarter 2017 of 1,439 boe/d.
- Average production for the four and a half months to May 19, 2018 is 1,439 boe/d[1] compared to 1,458 boe/d for the nine month period to September 30, 2017.

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 which is now expected to be finalized in H1 2019. Jadestone is progressing its participation discussions with Pertamina. 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 PSCs

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, shallow water offshore Vietnam. The Company has made three gas/condensate discoveries, being the U Minh and Tho Chu fields in Block 51, as well as the Nam Du gas discovery in 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 and the Company anticipates it should be concluded by the end of 2018; however, as it is dependent on government approvals, it could be delayed into 2019.

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, proposing a standalone development of these two 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 H2 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 life-of-field gas sales and purchase 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, and most recently November 13, 2018), the well is required to be drilled prior to June 29, 2020.

Block 51 is currently held in a suspended development area ("SDA") status. The portion of the block 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 PSC

Jadestone operated Block 127 PSC with a 100% working interest. This predominantly deepwater block covers an area of 9,000 km^2 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,

[1] Based on 139 days production between January 1, 2018 until PSC extension expiry on May 19, 2018.

2018. Having completed all minimum work commitments, Jadestone informed PVN of its relinquishment decision on April 4, 2018, the license was returned in October 2018, and the Company has officially relinquished the PSC. The Company recorded an impairment charge of US$11.9 million during the three months ended March 31, 2018, reducing the book value to nil.

Block 05-1 PSC

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 Corporation, 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 through legal action.

Philippines

Service Contract 56

Jadestone holds a 25% interest in SC56 in partnership with operator Total E&P Philippines B.V. ("Total"). Four wells have previously been drilled on SC56, resulting in the Dabakan and Palendag discoveries.

In September 2012, Total farmed into SC56 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 2019 work programme for SC56, as operator, includes geological and geophysical studies to further assess the prospectivity in the Block, and a gas market study.

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.

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 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 nine months ended September 30, 2018.

QUARTERLY SUMMARY	Three months ended							
(US$000, except where indicated)	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016
Production (boe/day)	3,080[2]	4,239	4,101	4,369	4,286	4,059	3,857	2,818
Revenues	32,668	18,333	20,999	20,926	21,383	18,134	17,210	17,932
Net earnings/(loss)	(2,955)	(4,912)	(16,593)	778	(3,930)	(11,778)	(19,485)	(8,586)
—Per share: basic & diluted	(0.01)	(0.02)	(0.07)	0.00	(0.02)	(0.05)	(0.09)	(0.04)
Funds from/(used in) operating activities	(12,226)	(2,583)	77	1,186	1,048	(8,130)	(6,518)	5,268
—Per share: basic & diluted	(0.03)	(0.01)	0.00	0.00	0.00	(0.04)	(0.03)	0.03

Quarter ended: Sep 30, 2018
Stag reported production for the quarter to September 30, 2018, was 3,080 bbls/d[2]. The Montara Assets were acquired on September 28, 2018 and averaged 7,585 bbls/d for the three days to September 30, 2018, which is excluded from the production shown in the quarterly summary above. Funds used in operations include a net investment (i.e. funds outflow) in working capital of US$12.2 million.

Quarter ended: Jun 30, 2018
Production was 4,239 boe/d for the quarter, reflecting improved uptime at Stag, despite planned maintenance activities which caused the deferral of 38,000 bbls of production, or 417 bbls/d, for the quarter. Revenue was US$18.3 million, due to higher benchmark prices offset by lower production with the expiry of the Ogan Komering PSC on May 19, 2018.

Quarter ended: Mar 31, 2018
Stag production was impacted by MBC and electronic submersible pump issues, plus poor weather conditions. Ogan Komering maintained steady production. Net earnings were impacted by an US$11.9 million exploration write-off, with respect to Block 127.

Quarter ended: Dec 31, 2017
Stag production for the quarter was 3,009 bbls/d, up around 6% on the prior quarter although impacted by MBC issues. Group production was up around 2% to 4,369 boe/d.

Quarter ended: Sep 30, 2017
Operatorship and legal title was obtained on Stag on July 10, and production levels increased due to improved well performance. Ogan Komering maintained steady production in line with budget. Total production was 4,286 boe/d, impacted by two workovers.

Quarter ended: Jun 30, 2017
Production was 4,059 boe/d, negatively impacted due to casing integrity issues and three workover wells at Stag. Production costs of US$22.2 million included US$9.2 million related to workovers. The company reported a net cash outflow of US$8.1 million in part due to the elevated workover costs and the higher overall costs under the previous operator.

[2] Excludes Montara production. The Montara Assets acquisition closed on September 28, 2018. Production for the three days to September 30, 2018 averaged 7,585 bbls/d.

Quarter ended: Mar 31, 2017
Stag production was 2,520 bbls/d, negatively impacted by workovers and an extended shut in due to casing integrity issues. Ogan Komering was acquired March 9, 2017, and resulted in additional production of 1,475 boe/d for March. Net income was impacted from a write-off of exploration at Bone, and project costs associated with the change in business strategy from exploration to production.

Quarter ended: Dec 31, 2016
The Stag acquisition was completed November 11, 2016. Results were impacted due to workovers and an operational suspension due to adverse weather conditions. Average production between November 11, 2016 to December 31, 2016 was 2,818 bbls/d.

Production

During the quarter ended September 30, 2018, Stag production averaged 3,080 bbls/d compared to Group total production of 4,239 boe/d[2] for the three months to June 30, 2018. The drop is due to the loss of Ogan Komering production in Q2 2018 (49 days at 1,425 boe/d to May 19, 2018); Stag production increased 9.4% quarter-on-quarter. This excludes any production from the Montara Assets; the acquisition closed on September 28, 2018. Montara production for the three days to September 30, 2018 averaged 7,585 bbls/d. If Jadestone had owned Montara for the full September 2018 quarter, total production from Stag and Montara would have averaged 10,568 bbls/d for the quarter (based on Montara actual average production for the full September quarter of 7,488 bbls/d).

Third quarter 2018 production of 3,080 bbls/d is down versus 4,286 boe/d for the same quarter a year ago, largely due to the expiry of the Ogan Komering PSC in Q2 2018 (Ogan Komering production in the September 2017 quarter averaged 1,439 boe/d), offset with improved Stag production this quarter compared to the same quarter a year ago.

Production increased in the nine months to September 30, 2018 compared to the same period in the prior year: 4,290 boe/d[3], versus 4,067 boe/d. The increase was largely due to improved production at Stag, following the transfer of operatorship on July 11, 2017.

As a result of two liftings at Stag in the September 2018 quarter, Stag barrels lifted in the September quarter averaged 4,590 bbls/d (Stag nine months to September 2018: 3,025 bbls/d), which is well above average production for the quarter and compares to 2,208 bbls/d lifted in the June 2018 quarter (Stag average lifting only), and 2,982 bbls/d lifted in the September 2017 quarter (Stag average lifting only, and 2,797 bbls/d lifted for the nine months to September 2017).

Benchmark commodity price and realised price

The three and nine month period Brent benchmark prices to September 30, 2018 increased to US$75.34/bbl and US$72.31/bbl respectively, compared to US$51.73/bbl and US$51.98/bbl respectively in the prior year. The movement in the average realized price tracked the benchmark price in the three and nine months to September 30, 2018, as the average realized price increased to US$77.07/bbl and US$70.06/bbl respectively (three and nine months ended September 30, 2017: US$52.45/bbl and US$52.73/bbl respectively).

As part of the Montara financing arrangements, the Company agreed to hedge not less than 50% of Montara's 2PD planned production volumes for the first 24 months. The hedge is a capped swap, protecting downside risk while allowing for upside participation when market prices move higher. The call option strike price is set at US$80.00/bbl for 2019 and US$85.00/bbl for 2020, while the average swap prices are US$78.26/bbl for Q4 2018, US$71.72/bbl for 2019 and US$68.45/bbl for the first three quarters of 2020. Upside participation is secured over approximately two-thirds of swapped barrels in 2019 and 2020 via the purchased calls. The effective date of the hedging agreements is October 1, 2018 and thus these hedges are not reflected in the September 2018 Financial Statements.

[3] Based on average production for Stag for the full nine months to September 30, 2018 and average production for Ogan Komering PSC for the 139 days in the period to PSC expiry on May 19, 2018.

RESULTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2018 US$000	2017 US$000	2018 US$000	2017 US$000
Gross revenue	32,668	21,383	72,001	56,727
Royalties	-	(2,486)	(3,549)	(6,159)
Cash flow hedges	(3,305)	-	(4,611)	-
Net revenue	29,363	18,537	63,841	50,568
Production cost	(16,870)	(12,373)	(40,337)	(52,417)
DD&A	(2,780)	(2,926)	(7,844)	(8,239)
Staff costs	(2,812)	(3,339)	(9,617)	(8,318)
Other expenses	(3,008)	(2,155)	(7,098)	(6,187)
Impairment of assets	-	-	(11,902)	(7,668)
Other income	180	(47)	291	217
Purchase discount	-	-	-	789
	4,073	(2,303)	(12,666)	(31,254)
Finance costs	(841)	(1,340)	(3,864)	(2,046)
Profit/(Loss) before tax	**3,232**	**(3,643)**	**(16,530)**	**(33,300)**
Taxation expense	(6,187)	(287)	(7,929)	(1,893)
Loss for the period	**(2,955)**	**(3,930)**	**(24,459)**	**(35,193)**
Loss per ordinary share:				
Basic and diluted (US$)	(0.01)	(0.02)	(0.09)	(0.16)

Gross revenue

Revenue for the three months ended September 30, 2018 is US$32.7 million, compared to US$21.4 million for the same quarter in the prior year due to:

- Increase in average net realized prices to US$77.07/bbl, versus US$52.45/bbl for the same quarter in the prior year, due to increasing commodity benchmark prices (three months to September 30, 2018: US$75.34/bbl, versus US$51.73/bbl for the three months to September 30, 2017).
- There were two Stag liftings during the September 2018 quarter, totaling 422,267 bbls, compared to one of 274,349 bbls in the same quarter of 2017.
- There was no revenue from Ogan Komering in the September 2018 quarter as a result of the expiry of the license on May 19, 2018. Ogan Komering total revenue in the September 2017 quarter was US$5.9 million.

Revenue for the nine months ended September 30, 2018 is US$72.0 million, compared to US$56.7 million in the prior year period, due to:

- Increase in average net realised liquids prices to US$70.06/boe, compared to US$52.73/boe for the same period in the prior year, due to increasing commodity benchmark prices (nine months to September 30, 2018: US$72.31/bbl, versus US$51.98/bbl for the nine months to September 30, 2017).

- Higher lifted volumes at Stag in the nine months to September 30, 2018 of 825,894 bbls (nine months to September 30, 2017: 763,535 bbls).
- Revenues have been partially reduced by the expiry of the Ogan Komering PSC, which generated revenues of US$10.7 million in 2018 up to expiry on May 19, 2018, compared to US$13.4 million in the nine month period ended September 30, 2017.

Royalties

The royalty rate in Indonesia, expressed as a per cent. of revenue, for the three months ended September 30, 2018 is nil, versus 43% in the same period for the prior year, as the PSC expired on May 19, 2018.

The royalty rate for the nine months ended September 30, 2018 is 34%, versus 46% in the same period in the prior year, due to higher cost recovery in the current nine month period.

Hedges

The hedging charge in the period ended September 30, 2018 was US$3.3 million (September 30, 2017: US$ nil). The hedged volumes were 259,260 bbls from total liftings of 422,267 bbls during the quarter. The average underlying hedge price was US$65.65/bbl compared to the underlying hedge contract value of US$78.39/bbl.

As part of the financing arrangements for the acquisition of the Montara Assets, the Company hedged 50% of 2PD planned production through to September 2020, with an effective date from October 1, 2018 and utilizing a capped swap structure. Given the effective date, there is no impact from the Montara hedges in the September 2018 Financial Statements.

Production costs

Production costs increased by US$4.5 million in the three month period ended September 30, 2018, compared to the same period in 2017, due to:

- A higher movement in crude inventory of US$5.7 million, related to two liftings (422,267 bbls) during the period ended September 30, 2018, compared to one lifting in the same period in 2017 (274,349 bbls), at a production cost of US$38.55/bbl (2017: US$39.12/bbl).
- A reduction in production costs of US$1.6 million due to the expiry of the Ogan Komering PSC, in Q2 2018, compared to a full quarter charge in Q3 2017.

Production costs reduced by US$12.1 million in the nine month period ended September 30, 2018 due largely to the following factors:

- Lower Stag workover activity in 2018 (US$4.9 million).
- Cost savings and efficiencies in FSO vessel expenses, air marine and onshore support, and other operating costs (US$4.6 million).
- Ogan Komering PSC expiry (US$1.7 million).

Impairment of assets

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

During the nine months ended September 30, 2018, the Company decided to relinquish Block 127. An impairment charge of US$11.9 million was recorded in the quarter to March 2018. The following impairments were recognised in the nine months ended September 30, 2017:

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

Finance costs

Finance costs for the quarter ended September 30, 2018 are US$0.8 million, a reduction of US0.5 million compared to the same period in 2017 (US$1.3 million). The reduction is due in part to:

- The Tyrus convertible bond was repaid during the period for US$17.4 million. Prior to redemption on August 15, 2018, the secured convertible bond was recorded in the accounts at fair value at US$13.3 million and US$4.0 million for the embedded convertible option.
- Interest incurred under the bond was US$0.1 million lower than the same quarter in the previous year, due to the repayment in mid-August.

For the nine months ended September 30, 2018, finance costs totaled US$3.9 million (nine months to September 30, 2017: US$2.0 million), with the US$1.8 million increase in large part due to a US$1.2 million fair value revaluation of the embedded option in the Tyrus convertible bond (nine months to September 30, 2017: nil), and US$0.4 million interest on the drawn portion of the convertible bond (nine months to September 30, 2017: US$0.3 million).

Taxation

Taxation expense for the three month period ended September 30, 2018 is US$6.2 million (three months to September 30, 2017: US$0.3 million). The movement of US$5.9 million largely relates to:

- Deferred tax was US$2.0 million higher in the current quarter due to timing differences through the utilization of income tax losses at Stag and Montara.
- Australian Property Resource Rent Tax ("PRRT") incurred in September 2018 quarter of US$3.5 million. This is the first quarter during Jadestone's ownership of Stag that PPRT has been incurred, due to tax credits previously carried forward being fully utilized.

During the nine months ended 30 September 2018, tax expense is US$7.9 million (nine months to September 30, 2017: US$1.9 million), with the movement of US$6.0 million related to movements in deferred tax and PRRT.

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 nine months ended September 30, 2018:

	As at September 30, 2018 US$000	As at December 31, 2017 US$000
Total assets	722,693	227,888
Non-current assets	589,996	203,109
Current assets	132,698	24,779
Non-current liabilities	448,210	108,024
Current liabilities	90,208	11,666
Shareholders' equity	184,275	108,198

Non-current assets

Non-current assets as at September 30, 2018 are US$590.0 million (December 31, 2017: US$203.1 million), an increase of US$386.9 million, predominately due to the acquisition of the Montara Assets from PTTEP Australasia.

The main movements in non-current assets are:

- **Intangible exploration assets** – decreased by US$11.3 million due to the write off of Block 127 in Vietnam (US$11.9 million), offset with additional expenditure on Block 46/07 and Block 51 in Vietnam of US$0.2 million and SC56 in Philippines of US$0.1 million.
- **Oil and gas properties** – an increase of US$385.8 million predominately relating to the acquisition of Montara.
- **Deferred tax assets** – decreased US$2.1 million due to the utilization of tax credits at Stag (US$2.7 million), offset by the consolidation of Montara (US$0.6 million).

Current assets

Current assets as at September 30, 2018 increased by US$107.9 million to US$132.7 million from the balance as at December 31, 2017 of US$24.8 million, due to:

- **Inventories** – increased US$35.4 million predominately due to the consolidation of the Montara Assets.
- **Trade and other receivables** – increased US$33.1 million due to the consolidation of the Montara Assets (US$14.2 million) and the timing of liftings and settlements at Stag. At September 30, 2018 the receivable at Stag was US$22.1 million (2017: US$1.5 million), which was subsequently collected in October 2018.
- **Cash and cash equivalents** – increased US$35.2 million due predominately to the AIM equity raise and RBL debt funding, completed during the period. The equity raise generated gross proceeds of £83.9 million, which was used to partially fund the acquisition of Montara, repay the convertible bond, part fund the planned upcoming infill well at Stag, and for various transaction costs. The RBL loan was used to part fund the acquisition of the Montara Assets, and to provide sufficient working capital for business operations.

Non-current liabilities

Non-current liabilities as at September 30, 2018 were US$448.2 million an increase of US$340.2 million from December 31, 2017, due to:

Provision for asset restoration obligations ("ARO")

The ARO is in respect of the future decommissioning costs at Stag and Montara. A provision of US$197.8

million was recognized in the period for Montara, and a decrease of US$2.5 million on Stag's ARO as part of the quarterly technical assessment, together with accretion expense.

Other payables

The other payables of US$22.4 million represents the contingent payments related to Montara acquisition of US$16.0 million, and long-term liabilities associated with the Stag leased FSO vessel of US$6.4 million.

Other long term payables

During the period ended September 30, 2018 the company entered into an RBL facility to borrow US$120.0 million to part fund the acquisition of the Montara Assets. The loan is repayable in quarterly tranches from December 31, 2018 until March 31, 2021. The transaction fees were US$3.1 million, and the fair value of the loan at September 30, 2018, had an amortised carrying value of US$116.9 million.

The repayments in the next 12 months are US$56.0 million, with the balance comprising long term liabilities of US$60.9 million.

Deferred tax liabilities

The deferred tax liability relates to the acquisition of the Montara Assets (US$84.8 million), and arose from timing differences in unrecovered depreciated costs. The balance as at December 31, 2018 of US$0.2 million, related to Ogan Komering, a license which expired in May 2018.

Secured convertible bonds and derivative financial instruments

During the period the company repaid the convertible bond which included the principal outstanding of US$15.0 million. At December 31, 2017, the bond had a fair value of US$12.8 million and the embedded derivative instrument US$3.1 million.

Current liabilities

Trade & other payables, accruals & provisions

Trade and other payables, accruals and provisions increased by US$18.5 million to US$29.3 million at September 2018, compared to US$10.8 million at December 2017, largely due to the inclusion of Montara (US$8.7 million), as well as increases at Stag due to timing of the cut-off date.

Borrowings

During the period, borrowings related to insurance premiums were repaid resulting in a movement of US$0.8 million, plus the current portion of the new RBL facility of US$56.0 million.

Other financial liabilities

In early 2018, 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$4.9 million represents the fair value of the cash flow hedge.

Share capital

	As at September 30, 2018	As at December 31, 2017
Number of ordinary issued shares	461,009,478	221,298,004
	USD$000	USD$000
At the beginning of the year	364,466	364,466
Proceeds from share issue, net of expenses	102,096	-
End of the period	466,562	364,466

On August 8, 2018 the Company's ordinary shares were admitted for trading on AIM, a sub-market of the London Stock Exchange. The Company issued 239,711,474 new ordinary shares at a price of 35 pence per ordinary share, raising gross proceeds of £83.9 million. The majority of the funds were used to fund the Montara Asset acquisition, along with the repayment of the secured convertible bond.

The share capital consists of fully paid ordinary shares with a nil par value. All shares are equally eligible to receive dividends and the repayment of capital, and each share is entitled one vote at the shareholders' meeting.

Shareholders' equity

Shareholders' equity increased by US$76.1 million compared to the prior fiscal year, due to the current nine month period loss of US$24.5 million, other comprehensive income loss of US$2.0 million due to mark to market on hedges, the increase in share capital of $102.1 million, and an increase in share based payments of US$0.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash at bank

At September 30, 2018, cash at bank was US$45.6 million, excluding restricted cash, compared with US$19.6 million as at September 30, 2017. The following table provides selected cash flow information for the periods indicated:

CASH FLOW	9 months ended September 30, 2018 US$000	9 months ended September 30, 2017 US$000
Cash used in operating activities	(14,706)	(14,575)
Cash used in investing activities	(135,215)	(5,857)
Cash (used in)/provided by financing activities	185,119	13,765
Increase/(Decrease) in cash during the period	35,198	(6,667)
Cash at bank beginning of period	10,450	26,243
Cash at bank end of period	45,648	19,576

The net cash used in operating activities remained steady at US$14.7 million, compared to the same period in 2017. This was predominately driven by changes in working capital movements at Stag and the inclusion of Montara.

Working capital

Working capital is the amount by which current assets exceed current liabilities. At September 30, 2018, the Company's working capital remains positive at US$42.5 million, an increase of US$29.4 million compared to December 31, 2017. A breakdown of the Company's working capital is as follows:

	As at September 30, 2018 US$000	**As at December 31, 2017 US$000**	**Change US$000**
Current assets	132,698	24,779	107,919
Current liabilities	90,208	11,666	78,542
Net working capital	42,490	13,113	29,377

The increase is predominately due to the consolidation of the Montara working capital balances acquired on September 28, 2018.

A summary of the Montara working capital provisional balances acquired is as follows:

	As at September 30, 2018 US$000
Inventories	36,930
Trade receivables and prepayments	15,830
Total current assets	52,760
Trade payables and accruals	(8,602)
Net current assets	44,158

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 audited financial statements as at 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 annual financial statements and MD&A for the period year ended December 31, 2017.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk of changes in market interest rates primarily due to the Company's long term debt obligations with rates that are fixed to 3 month US$ LIBOR.

The sensitivity analysis below has been determined based on the Company's exposure to an interest rate movement assuming the gross debt at the quarter end has been outstanding for the full quarter.

For gross debt outstanding of US$120.0 million at September 30, 2018, if interest rates had increased or decreased by 1% and all other variables remained constant the Company's quarterly net income/(loss) would have increased or decreased by US$0.2 million (2017: nil).

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 September 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.

As part of the Montara acquisition, the Company has hedged 50% of 2PD planned production volumes for the 24 months to September 2020. The hedge is a capped swap, providing downside price protection while allowing for participation in higher commodity prices via purchased call options. The call strike is set at US$80/bbl in 2019 and US$85/bbl for the first three quarters of 2020. The swap price is set at US$78.26/bbl for Q4 2018, US$71.72/bbl for 2019 and US$68.45/bbl for the nine months to September 2020. Approximately two thirds of the swapped barrels in 2019 and 2020 have upside price participation via purchased calls. The effective date of the hedge contracts is October 1, 2018, and hence there are no financial impacts reflected in the Q3 2018 Financial Statements.

During the nine months ended September 30, 2018, the loss on cash flow hedges recognised in the statement of other comprehensive income amounted to US$2.0 million net of tax, and the loss on cash flow hedges recognised in the income statement amounted to US$4.6 million. As at September 30, 2018 the financial liability of the cash flow hedge amounted to US$4.9 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 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.

Gain/(loss)	Effect on the result before tax for the quarter ended September 30, 2018 US$000	Effect on other comprehensive income for the quarter ended September 30, 2018 US$000	Effect on the result before tax for the quarter ended September 30, 2017 US$000	Effect on other comprehensive income for the quarter ended September 30, 2017 US$000
Increase by 10%	537	865	0	0
Decrease by 10%	(207)	(1,195)	0	0

Liquidity risk

The company has reduced the loss after tax for nine-month period ended September 30, 2018 by US$10.7 million compared to the nine-months ended September 30, 2017.

Net cash from/(used in) operating activities for the nine-month period ended September 30, 2018 is US$14.7

million compared to US$14.6 million in the nine-months period ended September 30, 2017. The company's net current assets as at September 30, 2018 are US$42.5 million (December, 2017: US$13.1 million). The increase is predominately due to the acquisition of Montara.

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:

	September 30, 2018 US$000	**December 31, 2017 US$000**
Less than 1 year		
Trade & other payables, accruals and provisions	29,310	10,839
Other financial liabilities	4,888	-
Borrowings	56,010	829
	90,208	11,668
Within 2 years		
Convertible bond	-	12,770
Derivative financial instruments	-	3,067
Borrowings	60,932	-
	60,932	15,837

Borrowings represent the US$120.0 million RBL facility entered into during the period, which carries an interest rate of 3 month US$ LIBOR plus 3%. The full facility was drawn down on September 28, 2018 and used to partly fund the acquisition of the Montara Assets. The facility incurred transaction fees of US$3.1 million, generating a fair value at September 30, 2018 of US$116.9 million. The loan is repayable in quarterly tranches, with the final repayment scheduled for March 31, 2021.

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:

Repayment of secured convertible bond

Tyrus Capital Event S.à r.l., an entity controlled by Tyrus Capital S.A.M., entered into a secured convertible bond facility agreement with the Company in November 2016. Tyrus Capital S.A.M. controls entities that hold approximately 23.8% of the Company's ordinary share capital as at September 30, 2018.

On August 1, 2018, the Company and Tyrus Capital Event S.à r.l. conditionally agreed, upon the Company's admission and listing on AIM, that the Company would redeem the secured convertible bond facility by paying US$17.4 million to Tyrus, and all associated security released. At June 30, 2018, the balance on the bond was drawn to US$15.0 million. Repayment subsequently occurred on August 15, 2018.

Compensation of directors and key management personnel

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

	Nine months ended September 30, 2018 US$000	**Nine months ended September 30, 2017 US$000**
Short-term benefits	3,468	2,851
Other benefits	716	979
Termination payments	-	125
Share-based payments	297	263
	4,481	4,218

EVENTS AFTER THE REPORTING PERIOD

There were no material non-adjusting events after the reporting period to note.

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.