Jadestone Energy Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the period ended June 30, 2019

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 August 27, 2019, and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements (the "Financial Statements") as at, and for the six month period ended June 30, 2019 and the Company's audited consolidated financial statements and related notes as at and for the year ended December 31, 2018.

The Financial Statements for the six month ended June 30, 2019, 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 contains 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 and on AIM, a market operated by the London Stock Exchange. The Company trades on both markets under the symbol JSE.

The Company and its subsidiaries (the "Group") are engaged in production, development, and exploration and appraisal activities in Australia, Vietnam and the Philippines. The Company's current producing assets are in the Carnarvon and Vulcan basins, offshore Western Australia.

The Montara project is located in production licenses AC/L7 and AC/L8 in the Timor Sea, in a water depth of approximately 77 meters. The Montara Assets, comprising the three separate fields being Montara, Skua and Swift/Swallow, are produced through a centralised floating production, storage, and offloading ("FPSO") vessel. As at December 31, 2018, the Montara Assets had proven plus probable reserves of 26.6 million barrels of oil (100% net to Jadestone).

The Stag Oilfield, which is in block WA-15-L, is located 60km offshore Western Australia in a water depth of approximately 47 meters. As at December 31, 2018 the field contained total proved plus probable reserves of 16.2 million barrels of oil (100% net to Jadestone).

During a substantial portion of the comparative six month period to June 30, 2018, the Company had a participating interest in the Ogan Komering production sharing contract ("PSC"), in Indonesia. The terms of the PSC expired on May 19, 2018, after which the Company no longer held an interest in the PSC.

Jadestone's Southeast Asian ("SEA") portfolio includes discovered resources in three gas fields in Vietnam and two gas fields in the Philippines. 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 SEA exploration and pre-development asset portfolio comprises approximately 4.6 million acres of awarded acreage and consists of two PSCs offshore Southwest Vietnam (Block 51 and Block 46/07) and two service contracts ("SC") in the Philippines (SC56 and SC57).

The Company is progressing the commercialisation of the Nam Du and U Minh discoveries in Southwest Vietnam, targeting development sanction later this year. The fields contain 30.2 million barrels of oil equivalent 2C contingent resource. On April 29, 2019 the Company announced it had signed a Heads of Agreement ("HoA") with Vietnam Oil and Gas Group ("PVN"), relating to the planned gas sales from the Nam Du and U Minh fields, and which covers all discovered resources.

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 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 3 Anson Road, #13-01 Springleaf 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

Montara Assets

During the six-month period ended June 30, 2019, Montara production was 11,545 bbls/d[1], compared to the same period in 2018 of nil production to Jadestone, as the acquisition occurred on September 28, 2018.

During the three month period ended June 30, 2019 production was 10,700 bbls/d.

There were three liftings in the six month period to June 30, 2019, resulting in total Montara sales of 1,969,679 bbls, compared to nil in the same period of 2018.

There were two liftings in the three month period to June 30, 2019, resulting in total Montara sales of 1,390,814 bbls, compared to nil in the same period of 2018.

[1] Average production for Montara from Jan 11, 2019 to Jun 30, 2019. Montara production averaged across the full 181 days was 10,908 bbls/d.

Stag Oilfield

During the six month period ended June 30, 2019, Stag production was 2,280 bbls/d, compared to 2,734 bbls/d during the same period of 2018, due to in part to delays to three well workovers arising from the drilling of the 49H infill well, as well as poor weather conditions during an extended cyclone season. The Stag 49H infill well produced at approximately 1,400 bbls/d upon completion on May 21, 2018, and is currently producing at a controlled rate of around 1,000 bbls/d.

During the three month period ended June 30, 2019, Stag production was 2,615 bbls/d, compared to Q2 2018 production of 2,814 bbls/d. The lower production was the net impact of the additional production generated after completion of the 49H well on May 21, 2019, offset by the deferred production due to the delays on the three well workovers.

There were two Stag liftings in the six month period ended June 30, 2019, resulting in total sales of 368,523 bbls, compared to 403,627 bbls in the same period of 2018.

There was one lifting in the three month period ended June 30, 2019, resulting in total sales of 198,537 bbls, compared to 200,890 bbls in the same period of 2018.

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 which ended on May 19, 2018. A new PSC was issued to Pertamina on May 20, 2018, at which point Jadestone no longer held an interest in the PSC. 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.

Production from the Ogan Komering PSC booked in the six month period ended June 30, 2018 amounted to 1,439 boe/d (for the period January 1 to May 19, 2018 when the PSC expired).

Production from the Ogan Komering PSC booked in the three month period ended June 30, 2018 amounted to 1,425 boe/d (for the period April 1 to May 19, 2018 when the PSC expired).

Exploration, appraisal and pre-development assets

Vietnam

Block 51 PSC and Block 46/07 PSC

Jadestone holds a 100% operated working interest in the Block 51 PSC and the Block 46/07 PSC, both in the shallow water Malay-Tho Chu Basin, offshore Southwest Vietnam. The two blocks hold three discoveries: the U Minh and Tho Chu gas/condensate fields in Block 51, and the Nam Du gas field in Block 46/07.

Prior to May 1, 2017, both 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 working interests in both blocks, leaving Jadestone as operator with a 100% working interest. The process for amending the investment licenses for the Block 51 PSC and for the Block 46/07 PSC, following PVEP's withdrawal, is continuing.

Jadestone's priority is to develop the Nam Du and U Minh fields with a view to selling gas into the Vietnamese domestic market. Accordingly, on May 21, 2018, the outline development plan ("ODP"), proposing a standalone joint development of these two fields, was approved by the Vietnamese Ministry of Industry and Trade ("MOIT"). Jadestone is targeting making the final investment decision and gaining approval of the field development plan ("FDP") by MOIT during the second half of 2019.

Under the terms of the Block 46/07 PSC, Jadestone is committed to drill one more appraisal well on the block. The Company plans to drill an appraisal well on the Nam Du field to facilitate transition of 3C resource to 2C status. This well is planned to be retained for future use as a Nam Du gas producer. On November 13, 2018, the Vietnam Government approved a request by the Company to extend the Block 46/07 exploration phase two period by a further two years to June 29, 2020. This enables the appraisal well drilling to be deferred to 2020, which aligns with ongoing project facilities engineering definition and development well planning, thus ensuring that the final well design is suitable for use as a Nam Du platform production well.

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.

An HoA was signed between Jadestone's wholly-owned Vietnamese subsidiaries for the Block 46/07 PSC and Block 51 PSC (the sellers) and PVN (the buyer) for the Gas Sales and Purchase Agreement ("GSPA") for the Nam Du and U Minh fields on April 26, 2019. The HoA stipulates the agreed daily contract quantity ("DCQ") of sales gas of 80 mmcf/d, and targeting a minimum production plateau period of 55 months. In addition to the DCQ, the HoA specifies certain take-or-pay provisions, the pricing formula, and other key terms that will be finalised in the GSPA at the time of FDP approval. GSPA negotiations are ongoing between Jadestone and PVN with an initial wellhead gas price expected to be agreed during Q3 2019 as updated project cost data becomes available.

Significant progress was made on several key pre-sanction project activities for the Nam Du / U Minh field development during Q2 2019. The project environmental impact assessment ("EIA") report was completed and submitted to the Vietnam Ministry of Natural Resources and Environment on June 25, 2019. An approved EIA is required to support government approval of the FDP. Facilities and pipeline front end engineering and design studies were completed. Progress was also made on evaluating and negotiating the bid proposals for the facilities engineering, procurement, and construction, and FPSO contract tenders. Both remain on track for award recommendations to the Board to be made during third quarter 2019.

Block 127 PSC

Jadestone was operator of and held a 100% working interest in the Block 127 PSC, located in the Phu Khanh Basin, off the east coast of Vietnam. During the first half of 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 exploration phase on May

24, 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.

<u>Block 05-1 PSC</u>

On August 9, 2016, a subsidiary of the Company, as buyer, signed a definitive agreement with Teikoku, a wholly-owned subsidiary of Inpex Corporation, as seller, for the acquisition of a 30% working interest in the Block 05-1 PSC, for a total cash consideration of US$14.3 million, 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

<u>Service Contract 56</u>

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.

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 Financial Statements for the period ended June 30, 2019.

	Three months ended							
USD'000 except where indicated	**June 30, 2019**	**Mar 31, 2019**	**Dec 31, 2018**	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sep 30, 2017**
Production (boe/day)	13,315	13,059	5,215	3,080	4,239	4,101	4,369	4,286
Revenues[2]	115,341	56,366	44,972	32,668	17,496	18,287	17,775	18,537
Net earnings/(loss)	22,584	8,360	(6,573)	(2,955)	(4,912)	(16,593)	778	(3,930)
—Per share: basic & diluted	0.05	0.02	(0.01)	(0.01)	(0.02)	(0.07)	0.00	(0.02)
Funds from/(used in) operating activities	33,013	28,664	32,495	(12,226)	(2,583)	77	571	1,185
—Per share: basic & diluted	0.07	0.06	0.07	(0.03)	(0.01)	0.00	0.00	0.01

Quarter ended: Jun 30, 2019

The quarter generated average production of 13,315 bbls/d. The completion of the H49 infill well at Stag on May 21 generated initial production of over 1,400 bbls/d. The additional production was offset by the deferral of three workovers during the drilling campaign. The company lifted 1,589,352 bbls during the quarter, which generated US$114.0 million in revenues before hedging income of US$1.4 million, and US$33.0 million in operational cashflows.

Quarter ended: Mar 31, 2019

The quarter generated average production of 13,059 bbls/d, with Montara restarting production on January 11, 2019 (averaged across the whole quarter). The company lifted 748,851 bbls during the quarter, which generated US$50.6 million in revenues before hedging revenue of US$5.7 million, and US$28.7 million in operational cashflows.

Quarter ended: Dec 31, 2018

Montara production averaged 7,628 bbls/d during October 2018, but was shut in to address a maintenance and inspection backlog during November and December. The average quarter production at Stag was 2,644 bbls/d, or a total of 5,215 bbls/d for the quarter including Montara October production (averaged across the whole quarter). The quarter was impacted by an additional US$4.0 million charge for the maintenance and inspection work.

Quarter ended: Sep 30, 2018

Stag reported production for the quarter to September 30, 2018, was 3,080 bbls/d. The Montara assets were

[1] Revenue was restated during Q4 2018, including prior periods, from a gross to a net basis after deducting royalties, but including realised effective hedging gains/losses. This restatement has been undertaken pursuant to *IFRS 15* and implemented in the consolidated financial statements for the year ended December 31, 2018.

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. Net revenue was US$17.5 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 marine breakaway coupling ("MBC") and electric 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 of Stag was obtained 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.

PRODUCTION

Production averaged 13,825 bbls/d[3] for the six month period ended June 30, 2019, compared to 4,173 boe/d for the comparative period.

- During the six months period ended June 30, 2019, Montara production averaged 11,545 bbls/d compared to nil in the comparative period (the Montara acquisition closed on September 28, 2018);
- Stag production for the period ended June 30, 2019 was 2,280 bbls/d, a decrease of 454 bbls/d compared to the comparative period due to delays in three workovers and poorer weather during H1 2019 from an extended cyclone season; and
- The Ogan Komering PSC expired in 2018, which resulted in a fall in production of 1,439 boe/d.

Production averaged 13,315 bbls/d during the second quarter of 2019, compared to 4,239 boe/d for the three-month period ended June 30, 2018, due to:

- Montara production averaged 10,700 bbls/d during the current quarter compared to nil in the

[2] Average production for Montara from Jan 11, 2019 to Jun 30, 2019 and for Stag for the full half-year. Company production based on averaging Montara production for the full 181 days was 13,118 bbls/d.

comparative quarter since the asset was not acquired until September 28, 2018;

- Stag production averaged 2,615 bbls/d in the current period, compared to 2,814 bbls/d in the comparative period due to drilling and completion of the 49H well which initially generated approximately 1,400 bbls/d, offset with the deferral of production due to the delay of three well workovers from the second quarter into the third quarter; and
- The Ogan Komering PSC expired in 2018 which resulted in no production in Q2 2019, compared to 1,425 boe/d in Q2 2018.

IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

IFRS 16 Leases

The Group, for the first time, has applied *IFRS 16 Leases* (as issued by the IASB in January 2016) as from January 1, 2019.

The Group has applied *IFRS 16* using the *'modified retrospective'* approach, which permits Jadestone to elect not to restate comparatives. On adoption, *IFRS 16* changed how the Group accounts for leases previously classified as operating leases.

IFRS 16 has the following impacts on the Group accounts:

- Recognises right of use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognises depreciation of right of use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

RESULTS OF OPERATIONS

	Three months ended June 30, 2019 USD'000	Three months ended June 30, 2018 USD'000	Six months ended June 30, 2019 USD'000	Six months ended June 30, 2018 USD'000
Consolidated statement of profit or loss				
Revenue	115,341	17,496	171,707	35,783
Production costs	(39,337)	(10,657)	(62,057)	(23,465)
Depletion, depreciation and amortisation	(33,222)	(2,264)	(45,114)	(5,064)
Staff costs	(5,112)	(3,780)	(8,890)	(6,805)
Other expenses	(2,171)	(2,952)	(5,037)	(5,397)
Impairment of assets	-	-	-	(11,902)
Other income	1,939	154	2,098	166
Finance costs	(4,944)	(1,863)	(10,016)	(3,077)
Other financial gains	1,458	-	1,936	-
Profit/(loss) before tax	**33,952**	**(3,866)**	**44,627**	**(19,761)**
Income tax expense	(11,368)	(1,046)	(13,683)	(1,742)
Profit/(loss) for the period	**22,584**	**(4,912)**	**30,944**	**(21,503)**
Profit/(loss) per ordinary share				
Basic and diluted (US$)	**0.05**	**(0.02)**	**0.07**	**(0.10)**
Consolidated statement of comprehensive income				
Profit/(loss) for the period	22,584	(4,912)	30,944	(21,503)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Gain/(loss) on unrealised cash flow hedges	3,105	(3,933)	(29,691)	(4,916)
Hedging gain reclassified to profit or loss	(1,376)	-	(7,128)	-
	1,729	**(3,933)**	**(36,819)**	**(4,916)**
Tax income/(expense) relating to components of other comprehensive income	(519)	1,180	11,046	1,475
Other comprehensive income/(loss)	**1,210**	**(2,753)**	**(25,773)**	**(3,441)**
Total comprehensive income/(loss) for the period	**23,794**	**(7,665)**	**5,171**	**(24,944)**

Revenue

Revenue for the six months ended June 30, 2019 was US$171.7 million, compared to US$35.8 million in the six months ended June 30, 2018. The variance of US$135.9 million was largely due to:

- The change in oil prices generated a variance of US$12.2 million. For the six month period ended June

30, 2019 the net realised price was US$70.39/bbl, compared to US$65.15/boe4 for the six month period ended June 30, 2018;
- The sales volumes of 2,338,203 bbls for the six month period ended June 30, 2019 compared to 603,705 boe in the comparative period, which generated a variance of US$113.0 million; and
- Indonesian royalties were US$2.7 million lower in the current period: in 2019 the Company finalised its royalty liabilities incurring a charge of US$0.8 million, compared to US$3.5 million for the six month ended June 30, 2018. This was due to the Ogan Komering PSC expiry on May 19, 2018.

Revenue for the three months ended June 30, 2019 is US$115.3 million, compared to US$17.5 million for the same quarter in the prior year, generating a variance of US$97.8 million, due largely to:

- A positive price variance between Q2 2019 and Q2 2018 resulted in an additional US$6.3 million of revenue—the realised price in Q2 2019 was US$71.70/bbl compared to US$67.72/bbl in Q2 2018;
- The volume variance was US$89.3 million, as the Company lifted 1,589,352 bbls in Q2 2019 compared to 270,713 bbls in Q2 2018; and
- Due to the expiry of Ogan Komering in May 19, 2018, there was no Indonesian revenue in Q2 2019 (Q2 2018:US$3.0 million).

Hedging generated income of US$7.1 million during the current six month reporting period, compared to nil during the same period in the prior year. This was generated by 1,080,420 bbls hedged at an average price of US$72.48/bbl.

Hedging income for the three month period ended June 30, 2019 was US$1.4 million, compare to nil in the same period in 2018, as the company hedged 521,220 bbls at Montara at a price of US$71.47/bbl.

Production costs

Production costs for the six months ended June 30, 2019, were US$62.1 million compared to US$23.5 million in the comparable period in 2018, or an increase of US$38.6 million, due to:

- Montara production costs of US$46.3 million in H1 2018 (H1 2018: nil);
- Stag production costs decreased US$4.9 million, due to lower cost incurred in workovers in H1 2019; and
- The expiry of the Ogan Komering PSC on May 19, 2018, resulting in a reduction of US$2.8 million between the two periods.

Production costs increased to US$39.3 million during Q2 2019 compared to US$10.7 million in the three month comparable period in 2018, due to:

- Montara production costs of US$31.4 million (Q2 2018: nil);
- Stag production costs decreased US$1.8 million due to the delay in workovers; and
- The expiry of the Ogan Komering PSC on May 19, 2018, resulting in a saving of US$1.0 million between

[3] During the three month and six month periods ended June 30, 2018, the Company sold gas as well as liquids from the Ogan Komering PSC. Hence, comparative data is stated on a "boe" basis, in comparison to current year "bbl" or liquid production.

the two periods.

Depletion, depreciation and amortisation ("DD&A")

The charge for the six months ended June 30, 2019 was US$45.1 million, compared to US$5.1 million for the six months ended June 30, 2018, due to the inclusion of Montara in H1 2019 for US$39.0 million, and slightly lower production at Stag for this reporting period relative to H1 2018.

The DD&A charge for the three months ended June 30, 2019 was US$33.2 million, compared to US$2.3 million for the three months ended June 30, 2018, due to US$29.2 million at Montara (Q2 2018: nil), as well as slightly lower production at Stag.

Finance costs

For the six months ended June 30, 2019, finance costs totaled US$10.0 million, compared to US$3.1 million for the six months period to June 30, 2018, with the US$6.9 million variance largely due to:

- Montara asset retirement obligation ("ARO") accretion expense of US$2.3 million (H1 2018: nil);
- Lease accretion expenses of US$2.0 million (H1 2018: nil), arising from the adoption of *IFRS16*;
- RBL facility interest of US$3.7 million (H1 2018: nil), noting the RBL was drawn down in late Q3 2018; and
- Partially offset by expenses in H1 2018 associated with the convertible bond of US$1.9 million, and noting that the bond was subsequently repaid on August 15, 2018 giving rise to no expenses in the current reporting period.

Finance costs for the quarter ended June 30, 2019 were US$5.0 million, an increase of US$3.1 million compared to the same period in 2018 (US$1.9 million), due to:

- Montara ARO accretion expense of US$1.1 million (Q2 2018: nil);
- Stag ARO accretion costs decreased by US$1.2 million in the current quarter versus the same quarter a year ago, due to changes in discount rates; and
- Lease accretion expenses of US$1.3 million (Q2 2018: nil), arising from the adoption of *IFRS16*;
- RBL facility interest of US$1.7 million (Q2 2018: nil); and
- A decrease in expenses associated with the convertible bond of US$1.3 million; nil in Q2 2109 versus US$1.3 million in Q2 2018.

Other financial gains

During the six months ended June 30, 2019, the Company recognised US$1.9 million (H1 2018: nil) of other financial gains due to the decrease in the fair value of the Montara contingent payments of US$1.9 million.

On June 30, 2019 the fair value of these contingent payments was US$1.8 million, compared to US$3.7 million as at December 2018. Due to the decline in the outlook for future oil prices since acquisition, the fair value of these liabilities has reduced, as the likelihood of making the payment is lower.

The movement in other financial gains between Q2 2019 and Q2 2018 of US$1.5 million is due to a gain in the fair value of the contingent payments of US$1.5 million for the same reasons as noted for H1 2019 versus H1 2018.

Taxation

The tax charge for the six months ended June 30, 2019 was US$13.7 million compared to US$1.7 million in the same period of 2018. The charge for H1 2019 comprises an income tax liability of US$28.2 million (H1 2018: US$0.8 million) offset by a PRRT tax credit of US$5.5 million (H1 2018: nil) and deferred tax credit of US$9.0 million (H1 2018: deferred tax charge US$1.0 million).

The PRRT tax credit reflects a refund received during the quarter offsetting a PPRT payment made in October 2018 given the costs of the 49H infill well subsequently incurred in the PPRT year. The PRRT tax movements all related to Stag, as Montara has carried forward PRRT tax credits of approximately US$2.9 billion.

During the three-month period ended June 30, 2019 the Company incurred a tax charge of US$11.4 million (Q2 2018: US$1.0 million) comprising income tax of US$18.1 million, offset by a PRRT tax credit of US$2.4 million (Q2 2018: nil) and deferred tax credits of US$4.3 million (Q2 2018: deferred tax charge US$0.6 million).

Gain/(loss) on unrealised cash flow hedges

During 2018, the Company entered into a capped swap to hedge approximately 50% of planned production at Montara over the period October 1, 2018 through to September 30, 2020 commencing at US$74.22 bbl through to US$66.62 bbl by the end of the hedge contracts.

The hedge contracts settle monthly, based on the average Dated Brent price in the month. The forward sales have been designated as cash flow hedges and were assessed to be effective with a fair value of US$14.0 million as at June 30, 2019. The fair value is based on third party valuations for similar products on the relevant markets.

There was a gain on unrealized cashflow hedges of US$3.1 million in the three months ended June 30, 2019 (2018: loss US$3.9 million) and a loss for the six month period of US$29.7 million (2018: US$4.9 million) reflecting the movements in fair value of the remaining hedge contracts on the balance sheet.

Hedging gain reclassified to profit and loss

The reclassification of hedge contracts in the three-month period ended June 30, 2019, gave rise to a transfer from other comprehensive income to revenue of US$1.4 million (Q2 2018: nil), and in the six month period ended June 30, 2019 a transfer to revenue of US$7.1 million (H1 2018: nil). The movement relates to the expiry of hedging contracts associated with Montara production contracts between January to June 2019, and the ineffective mark-to-market gain for the remaining Montara contracts.

Tax relating to components of other comprehensive income

The tax components of other comprehensive income for the three and six months ended June 30, 2019 are tax expense of US$0.5 million and tax credit of US$11.0 million respectively, which reflects the deferred tax impact on the net income or expense for the periods.

FINANCIAL POSITION

The following provides selected financial information of the Company, which was derived from, and should be read in conjunction with, the Financial Statements for the quarter ended June 30, 2019:

	As at June 30, 2019 USD'000	As at December 31, 2018 USD'000
Total assets	802,633	729,548
Non-current assets	633,126	572,868
Current assets	169,507	156,680
Non-current liabilities	454,317	429,936
Current liabilities	127,182	84,351
Shareholders' equity	221,134	215,261

Non-current assets

Non-current assets as at June 30, 2019 are US$633.1 million (December 31, 2018: US$572.9 million), an increase of US$60.3 million, predominately due to the following:

- **Right of use assets** – an increase of US$69.3 million, pursuant to the adoption of *IFRS 16***;**
- **Oil and gas properties** – a net increase of US$4.2 million due to costs associated with drilling the Stag 49H infill well, early costs associated with the Montara H6 infill well, pipeline maintenance, and changes in ARO assumptions at Montara and Stag, partially offset by depletion charges for the half year;
- **Derivative financial instruments** – declined by US$12.6 million to US$2.7 million to reflect the changes in the anticipated variables including future Dated Brent oil prices; and
- **Intangible exploration assets** – increased by US$4.3 million to US$99.9 million, largely due to the increased expenditure in Vietnam, leading up to project sanction of Nam Du and U Minh later in 2019.

Current assets

Current assets as at June 30, 2019 were US$169.5 million, compared to US$156.7 million as at December 31, 2018, a change of US$12.8 million largely due to:

- **Trade and other receivables** – increased US$35.3 million due the timing of liftings and settlements at Montara. The second Montara lifting in Q2 2019 completed on June 30, 2018 with 30 days settlement terms;
- **Inventories** – increased US$2.4 million, predominately due to the timing of liftings at Stag; and
- **Derivative financial instruments** – decreased US$24.7 million, relating to the fair value of the Montara capped swap to reflect the changes in the anticipated variables including future Dated Brent oil prices;

Non-current liabilities

Non-current liabilities as at June 30, 2019 were US$454.3 million, an increase of US$24.4 million from December 31, 2018, due largely to the following:

- **Provision for ARO** – the future estimated decommissioning costs at Stag and Montara have increased US$21.4 million, reflecting the impact of changes in discount and exchange rate assumptions of US$18.1 million, and an accretion expense of US$3.3 million;
- **Borrowings** – in accordance with *IFRS 9*, the Company's RBL loan is carried at its amortised cost of US$73.4 million (December 31, 2018: US$100.5 million), net of establishment, transaction and other fees. The total balance is split between US$25.3 million (December 31, 2018: US$49.4 million) in non-current liabilities and US$48.1 million (December 31, 2018: US$51.1 million) in current liabilities, resulting in a US$24.1 million decline in non-current liabilities;
- **Lease liability** – an increase of US$50.9 million in H1 2019, pursuant to the adoption of *IFRS 16*;
- **Other payables** – a decrease of US$1.9 million due to the reduction in the fair value of the two potential contingent payments to PTTEP Australia, the vendor of the Montara Assets; and
- **Deferred tax liabilities** – a decrease of US$20.1 million to US$72.3 million at June 30, 2019, from US$92.5 million as at December 31, 2018, due to changes in temporary timing differences in both corporate income tax and deferred PRRT.

Current liabilities

Current liabilities as at June 30, 2019 were US$127.2 million, an increase of US$42.8 million from December 31, 2018, due to the following:

- **Borrowings** – the current portion of the RBL is US$48.1 million (December 31, 2018: US$51.1 million), or a US$4.3 million decline in current liabilities inclusive of the change in an insurance premium funding arrangement;
- **Lease liability** – an increase of US$19.4 million in H1 2019, pursuant to the adoption of *IFRS 16*;
- **Trade and other payables** – a decrease of US$0.9 million to US$29.8 million at June 30, 2019, compared to US$30.7 million at December 2018, predominately due to greater settlements of trade payables at the June 2019 quarter end; and
- **Provision for tax** – an increase of US$28.2 million to US$29.5 million at June 30, 2019, from US$1.3 million as at December 31, 2018, due largely to Australian taxable income generated in the quarter from Montara operations.

Share capital

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.

	As at June 30, 2019	As at December 31, 2018
Number of issued ordinary shares	461,042,811	461,009,478
	USD'000	**USD'000**
At beginning of the period/year	466,562	364,466
Proceeds from share issue, net of issuance costs	11	102,096
End of the period/year	466,573	466,562

Shareholders' equity

Shareholders' equity increased by US$5.9 million compared to December 31, 2018, predominately due to US$26.7 million of profit after tax generated in the period, partially offset by a reduction in the hedging reserve reflecting the movement in the hedging loss as detailed in Other Comprehensive Income.

LIQUIDITY AND CAPITAL RESOURCES

Cash at bank

At June 30, 2019, current cash and cash equivalents was US$51.8 million, excluding restricted cash, compared with US$53.0 million as at December 31, 2018. The following table provides selected cash flow information for the quarters indicated.

CASH FLOW

	Three months ended June 30, 2019 USD'000	Three months ended June 30, 2018 USD'000
Cash generated from operating activities	33,013	(2,583)
Cash used in investing activities	(27,746)	(206)
Cash used in financing activities	(11,877)	(308)
Decrease in cash during the quarter	(6,610)	(3,097)
Cash at bank beginning of quarter	58,490	9,662
Cash at bank end of quarter	**51,880**	**6,565**

The improved cash balance reflects the increased operating cashflows generated at Montara through increased production and associated revenues.

Cash generated from operating activities

The increase of US$35.6 million reflects the inclusion of Montara during the quarter ended June 30, 2019, compared to Stag and Ogan Komering during the comparable quarter in 2018.

Cash used in investing activities

Investing activities were net US$27.7 million in the quarter ended June 30, 2019, compared to US$0.2 million in the same quarter of 2018, reflecting capital expenditure of US$23.1 million together with lease payments of US$4.9 million for the right of use assets, offset by interest of US$0.3 million.

Cash used in financing activities

Financing expenditure increased US$11.6 million due largely to the quarterly repayment of the RBL.

WORKING CAPITAL

Working capital is the amount by which current assets exceed current liabilities. At June 30, 2019, the Company's working capital remains positive at US$42.3 million, a decrease of US$30.0 million compared to December 31, 2018. A breakdown of the Company's working capital is as follows.

	As at June 30, 2019 USD'000	**As at December 31, 2018 USD'000**	**Change USD'000**
Current assets	169,507	156,680	12,827
Current liabilities	127,182	84,351	(42,831)
Net working capital	**42,325**	**72,329**	**(30,004)**

The movement largely reflects the US$42.8 million increase in current lease liabilities pursuant to the adoption of *IFRS 16*, the reduction in the carrying value of the capped swap derivative financial asset of US$24.7 million based on the redetermination of its fair value at June 30, 2019, plus movements in trade debtors, payables and inventories.

FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

For a detailed analysis of how the Company manages its financial instruments, financial risks and capital management, see the audited financial statements for the year ended December 31, 2018. The financial risks, instruments and capital market strategies have not materially changed since the year end.

Capital management

The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group, in order to support the acquisition, exploration and development of resource properties and the ongoing operations of its producing assets.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Group, is reasonable. There were no changes in the Group's approach to capital management during the financial quarter ended June 30, 2019.

	June 30, 2019 USD'000	December 31, 2018 USD'000
Gearing ratio		
Debt	73,401	101,813
Cash and cash equivalents	(51,880)	(52,981)
Restricted cash	(14,499)	(18,644)
Net debt	**7,022**	**30,188**
Equity	221,134	215,261
Net debt to equity ratio	**3%**	**14%**

Debt is defined as long and short-term borrowings (excluding derivatives), see further Note 28 of the Financial Statements. Cash and cash equivalents include the Montara Assets' minimum working capital cash balance of US$15.0 million required under the RBL, while restricted cash comprises the US$14.5 million in the RBL debt service reserve account as at June 30, 2019. Restricted cash, as shown here, excludes the US$10.0 million deposited in support of a bank guarantee to a key supplier in respect of the Stag FSO. Equity includes all capital and reserves of the Group that are managed as capital.

SEGMENT INFORMATION

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

	Six months ended June 30, 2019				
	Producing assets		Exploration		
	Australia USD'000	SEA USD'000	SEA USD'000	Corporate USD'000	Total USD'000
Revenue	**171,707**	**-**	**-**	**-**	**171,707**
Production cost	(62,057)	-	-	-	(62,057)
DD&A	(44,885)	-	-	(229)	(45,114)
Staff costs	(3,775)	(670)	(517)	(3,928)	(8,890)
Other expenses	(4,404)	(79)	(150)	(404)	(5,037)
Other income	2,134	-	-	(36)	2,098
Finance costs	(9,987)	-	-	(29)	(10,016)
Other financial gain	1,936	-	-	-	1,936
Profit/(loss) before tax	**50,669**	**(749)**	**(667)**	**(4,626)**	**44,627**

	June 30, 2019				
	Producing assets		Exploration		
	Australia	SEA	SEA	Corporate	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Additions to non-current assets	**26,181**	**-**	**4,287**	**23**	**30,491**
Total assets & liabilities					
Current assets	167,983	72	-	1,452	169,507
Non-current assets	532,094	-	99,894	1,138	633,126
Current liabilities	(122,401)	(73)	-	(4,708)	(127,182)
Non-current liabilities	(453,480)	-	-	(837)	(454,317)
Net assets	**124,196**	**(1)**	**99,894**	**(2,955)**	**221,134**

	Six months ended June 30, 2018				
	Producing assets		Exploration		
	Australia	SEA	SEA	Corporate	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Revenue	**28,608**	**7,175**	**-**	**-**	**35,783**
Production cost	(20,704)	(2,761)	-	-	(23,465)
DD&A	(4,356)	(657)	-	(51)	(5,064)
Staff costs	(1,978)	(1,143)	(344)	(3,340)	(6,806)
Other expenses	(2,853)	-	-	(2,544)	(5,395)
Other income	114	-	-	52	166
Impairment of asset	-	-	(11,902)	-	(11,902)
Finance costs	(1,467)	-	-	(1,610)	(3,077)
Profit/(loss) before tax	**(2,636)**	**2,614**	**(12,246)**	**(7,493)**	**(19,761)**

	December 31, 2018				
	Producing assets		Exploration		
	Australia	SEA	SEA	Corporate	Total
	USD'000	USD'000	USD'000	USD'000	USD'000
Additions to non-current assets	**360,774**	**-**	**1,835**	**1**	**362,610**
Total assets & liabilities					
Current assets	147,358	345	417	8,560	156,680
Non-current assets	476,981	-	95,607	280	572,868
Current liabilities	(79,867)	(93)	(737)	(3,654)	(84,351)
Non-current liabilities	(429,936)	-	-	-	(429,936)
Net assets	**114,536**	**252**	**95,287**	**5,186**	**215,261**

Non-current assets include oil and gas properties, intangible exploration assets and property plant and equipment used in corporate offices.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

	Six months ended June 30, 2019 USD'000	**Six months ended June 30, 2018 USD'000**
Short-term benefits	2,159	1,796
Other benefits	503	225
Share-based payments	369	124
	3,032	**2,175**

The total remuneration of members of key management for Q2 2019, including salaries and benefits, was US$3.0 million (H1 2018: US$2.2 million).

EVENT AFTER THE REPORTING PERIOD

Transfer of Montara Operatorship
The transfer of operatorship at Montara was completed on August 6, 2019, following the acceptance by NOPSEMA, the safety regulator in Australia, of the Company's safety case. The Company has now requested that NOPTA, the Australian title administrator, approve transfer of the final 1% interest in the Montara titles. The Company received 99% interest in the Montara titles on May 30, 2019. The Company is in the process of closing out the Operator and Transitional Services Agreement with the previous Montara operator.

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.