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AAG Energy Holdings Limited

亞美能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2686)

VOLUNTARY ANNOUNCEMENT 3rd QUARTER 2017 OPERATIONS UPDATE

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 3rd quarter of 2017, i.e. three months ended September 30, 2017 (“2017Q3”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- **HSE continues to outperform the target with zero injury in Q3**
- **Gross production on track to deliver the 614 MMCM guidance for 2017 (Panzhuang: 557 MMCM, Mabi: 57 MMCM)**
 - Q3 gross production of 166 MMCM, 11% YoY increase for Panzhuang and 52% YoY increase for Mabi.
 - Q3 total daily production averaged 1.8 MMCM per day
- **Mabi signed pilot gas sales agreement with PetroChina in Q3**
 - Mabi pilot gas sales utilization rate of 98%
- **Panzhuang Gas sales with exceptional utilization rate of 99% in Q3**
- **2017 drilling program on schedule, with 37 wells drilled in Q3**
 - 33 wells drilled YTD in Panzhuang, passing full year target of 29 wells
- **Excellent performance in Cost Control**
 - Drilling costs for Panzhuang in Q3 down by 27% per well from 2016
 - Drilling and completion costs for Mabi in Q3 down by 25% compared with the budget
 - Completion costs for Mabi are down 30% YoY

AAG GROSS PRODUCTION ON TRACK TO DELIVER 2017 TARGET

AAG produced 166 million cubic meters (“**MMCM**”) of gas in 2017Q3, a 10% increase from last quarter. Of the 166 MMCM produced in 2017Q3, 150 MMCM was from our Panzhuang concession and 16 MMCM was from the Mabi concession. AAG’s total average daily production in 2017Q3 was 1.80 MMCM per day (“**MMCMD**”), comprising 1.63 MMCMD from Panzhuang and 178 thousand cubic meters per day (“**MCMD**”) from Mabi pilot production.

PANZHUANG CONCESSION — CONTINUES TO OUTPERFORM WITH PRODUCTION GROWTH

AAG’s Panzhuang concession in partnership with China United Coalbed Methane Corporation Ltd. (“**CUCBM**”) continues to be the highest producing coalbed methane (“**CBM**”) natural gas project in China, and was designated as the leading CBM production sharing contract in China under the Thirteenth Five-Year Development and Utilization Plan for Coalbed Methane (“**Energy Plan**”) released by the National Energy Administration (國家能源局) and the National Development and Reform Commission (國家發展和改革委員會, “**NDRC**”).

Panzhuang produced 150 MMCM in 2017Q3, a 10% increase from last quarter and right on track to deliver the 2017 production target of 557 MMCM. Panzhuang’s average daily production in 2017Q3 was 1.63MMCMD, an 11% increase year on year. The sales utilization rate in Panzhuang has remained very high at 99% during 2017Q3.

The Panzhuang 2017 work plan focuses on increasing production growth while driving costs down. In 2017Q3, we are ahead of schedule with 17 wells added to production in Panzhuang for a total of 135 producing wells. In 2017Q3, we completed drilling a total of 11 wells and have completed the 2017 drilling plan of 29 wells ahead of schedule, with 33 wells drilled year to date.

The current production capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 5 gas gathering stations, 18 wellhead compressors, 54.1 km of trunk links and 89.0 km of single well pipelines completed. We are in the process of upgrading our central gathering station and adding a new 35KV transformer station, which will further improve surface compression capacity to enhance gas production and sales.

For detailed matrix of Panzhuang operation performance and well count, please refer to Table 1.

MABI CONCESSION — IMPROVED PILOT PERFORMANCE FOR COMMERCIALIZATION

AAG's Mabi concession in partnership with PetroChina Company Limited, is the leading development stage CBM gas project in China designated under the Energy Plan. Mabi has a surface area of 898.2 sq. km and net Proved + Probable (“**2P**”) reserves of 500.5 billion cubic feet (“**bcf**”), based on reports issued by Netherland, Sewell & Associates, Inc (“**NSAI**”), an independent reserve certification company. In 2017, Mabi focuses on improving pilot performance, initiating cost control and preparing for the commercial development after Overall Development Plan approval is received.

In 2017Q3, Mabi produced 16 MMCM, a 52% year on year increase. Single well production on average was 1.78 MCMD, a year on year increase of 88%. In Mabi, there are 100 wells at various stages of pilot production.

In Mabi, AAG completed drilling a total of 26 wells and hydraulic fractured 14 wells in 2017Q3. Year to date 42 wells have completed drilling and 20 wells have been hydraulic fractured. The average cost of these 42 wells including drilling and completion are approximately 30% lower year on year. A combination of low cost Pad Drill Wells (“**PDW**”), combined with well casing and hydraulic fracture completion will allow for one well to reach multiple coal seams with the lowest investment. Based on the recent success of Mabi pilot production improvement and development optimization, the Mabi concession is ready for scaled commercial development.

MABI GAS SALES CONTRACT SIGNED IN Q3 — REVENUE RECOGNITION STARTED

As stated in the 2017 Interim Report issued on 30 August 2017 (“**2017 Interim Report**”), on 1 July 2017, AAG entered into a gas sales agreement with PetroChina Company Limited, which sets out the terms of gas sales of Mabi concession during the exploration period. In summary, this pilot sales agreement allows Mabi to sell up to 500MCMD of gas to the PetroChina West East pipeline 1. In addition to our Panzhuang concession, Mabi pilot sales also qualifies for the 0.3 RMB/CM subsidy, and the VAT refund. We are very excited with this development as now that we have started to recognize the Mabi gas sales as revenue from the second half of 2017, we have started recovering our cost and delivering value to our shareholders.

For a detailed matrix of Mabi operation performance and well count, please refer to Table 1.

HEALTH, SAFETY, ENVIRONMENT (“HSE”) — ZERO INJURY IN Q3

For 2017Q3, AAG's HSE record outperformed the target and maintained zero incident for total recordable injury rate (“**TRIR**”), and lost time injury rate (“**LTIR**”). For preventable motor vehicle accident rate (“**PMVA**”), there was one incident involving a traffic accident which resulted in a higher than expected rate of 1.17, passing our target of 0.8. No one was injured and we have implemented safety and training measures to prevent further traffic accidents in the future.

CAPEX AND COST UPDATE (AS OF SEPTEMBER 30, 2017)

Out of the planned capital expenditure (“**Capex**”) budget of RMB602 million (“**MM**”) for 2017 as revised in the 2017 Interim Report, AAG has incurred RMB106.8 MM in total Capex in 2017Q3. Costs per well continue to fall for Panzhuang. The average drilling cost for 1 single lateral horizontal (“**SLH**”) well in Panzhuang was reduced further to RMB2.76 MM in 2017Q3 down from RMB3.31 MM in 2017Q1, and these wells were drilled in just 14.9 days on average in 2017Q3. This is a big saving from the 2016 average drilling cost per SLH well in Panzhuang of RMB3.8 MM, with wells drilled in 22 days. For Mabi, the average drilling cost for 1 PDW was about RMB0.84 MM in 2017Q3 with wells drilled in just 6 days, representing only 75% of the budget at beginning of the year. AAG remains committed to driving costs down and keeping a healthy margin.

CHINA GAS MARKET UPDATE

China’s total gas consumption was up 15% year on year to 156 billion cubic meters (“**bcm**”) for the period from January to August 2017, according to SIA Energy, an independent China-focused oil and gas consulting firm, owing to the coal-to-gas conversion program which brings out additional gas demand in 2017 as the PRC encourages coal users to switch to gas. It is the Company’s belief that gas use promotion policy and environmental protection will become resilient growth drivers in the medium and long term.

Table 1- Operation matrix of Panzhuang (“PZ”) and Mabi (“MB”) concessions

2017Q3 update*	2017Q3	2017Q2	% change	2016Q3	% change	2016 Total
Total gross production (MMCM)	165.90	150.17	10%	145.10	14%	541.08
Total average daily production (MMCM)	1.80	1.65	9%	1.58	14%	1.48
Panzhuang (PZ) gross production (MMCM)	149.50	136.37	10%	134.34	11%	506.13
PZ MLD	82.84	87.68	-6%	117.14	-29%	447.95
PZ SLH	60.01	42.66	41%	13.56	343%	45.67
PZ PDW	6.65	6.03	10%	3.64	83%	12.50
Total PZ producing wells**	135	118	14%	92	47%	97
PZ MLD	49	48	2%	49	0%	49
PZ SLH	70	54	30%	29	141%	34
PZ PDW	16	16	0%	14	14%	14
PZ daily production (MMCMD)	1.63	1.50	8%	1.46	11%	1.38
PZ MLD	0.90	0.96	-7%	1.27	-29%	1.22
PZ SLH	0.65	0.47	39%	0.15	343%	0.12
PZ PDW	0.07	0.07	9%	0.04	83%	0.03
PZ average daily production per well (MCMD)	12.04	12.70	-5%	15.87	-24%	14.26
PZ MLD	18.38	20.07	-8%	25.98	-29%	24.98
PZ SLH	9.32	8.68	7%	5.08	83%	3.67
PZ PDW	4.52	4.14	9%	2.83	60%	2.44
PZ wells drilled	11	16	-31%	7	57%	30
PZ wells fracked	-	2	-100%	5	-100%	7
Mabi (MB) gross production (MMCM)	16.40	13.80	19%	10.77	52%	34.95
MB MLD	0.02	0.04	-51%	0.06	-69%	0.19
MB SLH	8.07	5.45	48%	0.66	1120%	3.08
MB PDW	8.31	8.30	0%	10.05	-17%	31.69
Total Mabi producing wells**	100	93	8%	126	-21%	121
MB MLD	1	1	0%	2	-50%	2
MB SLH	10	10	0%	14	-29%	12
MB PDW	89	82	9%	110	-19%	107
MB average daily production (MCMD)	178.29	151.61	18%	119.64	49%	95.49
MB MLD	0.21	0.42	-51%	0.67	-69%	0.51
MB SLH	87.72	59.93	46%	7.35	1093%	8.40
MB PDW	90.36	91.26	-1%	111.61	-19%	86.58
MB average daily production per well (MCMD)	1.78	1.63	9%	0.95	88%	0.79
MB MLD	0.21	0.42	-51%	0.34	-39%	0.26
MB SLH	8.77	5.99	46%	0.53	1571%	0.70
MB PDW	1.02	1.11	-9%	1.01	0%	0.81
MB wells drilled	26	16	63%	5	420%	8
MB wells fracked	14	-	N/A	4	250%	31

* Operations update as of Sep 30, 2017, 08:00 CST

** well count is calculated from pumping start date

The material contained herein is an update of AAG's activities at the date of the announcement. It is information given in summary form based on the most current information available to management and does not purport to be complete. The information herein may be subject to final review and audit adjustments, and the relevant information in AAG's 2017 annual report may be different due to difference in reference date or time. Shareholders and potential investors are advised to exercise caution when dealings in the shares of the Company.

On behalf of the Board
AAG Energy Holdings Limited
Stephen Xiangdong Zou
Chairman

Hong Kong, October 30, 2017

As at the date of this announcement, the executive director is Stephen Xiangdong Zou; the non-executive directors are Peter Randall Kagan, Gordon Sun Kan Shaw, Zhen Wei, Lei Jin, Guiyong Cui and Saurabh Narayan Agarwal; and the independent non-executive directors are Yaowen Wu, Robert Ralph Parks, Fredrick J. Barrett and Stephen Cheuk Kin Law.