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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 2nd QUARTER 2017 OPERATIONS UPDATE

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 2nd quarter of 2017, i.e. three months ended June 30, 2017 (“2017Q2”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- **HSE continues to outperform the target with zero incidents in Q2**
- **Gross production on track to deliver the 614 MMCM guidance for 2017 (Panzhuang: 557 MMCM, Mabi: 57 MMCM)**
 - Q2 gross production of 150 MMCM, 10% YoY increase for Panzhuang and 77% YoY increase for Mabi.
 - Q2 total daily production reached 1.65 MMCM per day
- **2017 drilling program on schedule, with 32 wells drilled in Q2**
- **Gas sales with exceptional utilization rate of 98% in Q2**
- **Costs are well under control**
 - Drilling costs for Panzhuang in Q2 down by 26% per well from 2016
 - Drilling costs for Mabi in Q2 down by 25% per well compared with the budget

AAG Gross Production on track to deliver 2017 target*

AAG produced 150 million cubic meters (“**MMCM**”) of gas in 2017Q2, a 5% increase from last quarter. Of the 150 MMCM produced in 2017Q2, 136 MMCM was from our Panzhuang concession and 14 MMCM was from the Mabi concession. AAG’s total average daily production in 2017Q2 was 1.65 MMCM per day (“**MMCMD**”), comprising 1.50 MMCMD from Panzhuang and 152 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 project 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 136 MMCM in 2017Q2, a 5% increase from last quarter and right on track to deliver the 2017 production target of 557 MMCM. The sales utilization rate in Panzhuang has remained at 98% over 2017Q2.

The Panzhuang 2017 work plan focuses on increasing production growth while driving costs down. In 2017Q2, we are ahead of schedule with 18 wells added to production in Panzhuang after dewatering or other work over activities. In 2017Q2, we completed drilling a total of 16 wells and are on schedule to complete the 2017 drilling plan of 29 wells in total.

The current production capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 5 gas gathering stations, 16 wellhead compressors, 52.4 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.

For a 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 China National Petroleum Corporation (中國石油天然氣集團公司, “**CNPC**”), is the leading development stage CBM gas project in China designated under the Energy Plan. Mabi has immense potential at 7 times the size of Panzhuang with 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 2017Q2, Mabi produced 14 MMCM, a 77% YoY increase. Single well production on average was 1.63 MCMD, a YoY increase of 130%. In Mabi, there are 93 wells at various stages of pilot production.

In Mabi, AAG completed drilling a total of 16 wells in 2017Q2. A combination of low cost vertical wells, 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.

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

Health, safety, environment (“HSE”) — Zero Incident in Q2

For 2016, AAG had zero incident across our employee total recordable injury rate (“**TRIR**”), lost time injury rate (“**LTIR**”), and preventable motor vehicle accident rate (“**PMVA**”). For 2017Q2, AAG’s HSE record outperformed the target and maintained zero incident for LTIR, TRIR and PMVA.

ODP approvals — Progress on track

All Mabi Overall Development Plan Phase I (“**ODP I**”) associated pre-approvals have been secured. The revised Mabi ODP I report based on the latest progress made in the Mabi pilot program and changed market conditions passed the internal review by our project partner, CNPC in 2017Q2, and the communication with the NDRC to submit Mabi’s ODP I application has been underway.

Capex and Cost update (as of June 30, 2017)

Out of the planned capital expenditure (“**Capex**”) budget of RMB590 million (“**MM**”) for 2017, AAG has incurred RMB109.2 MM in total Capex in 2017Q2. 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 RMB2.81 MM in 2017Q2 down from RMB3.31 MM in 2017Q1, and these wells were drilled in just 16.5 days on average in 2017Q2. 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 pad drill well (“**PDW**”) was about RMB0.9 MM in 2017Q2, 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 10% YoY to 98 billion cubic meters (“**bcm**”) for the period from January to May 2017, according to SIA Energy, an independent China-focused oil and gas consulting firm, owing to the coal-to-gas conversion program which bring 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

2017Q2 update*	Q2 2017	Q1 2017	% change	Q2 2016	% change	2016 Total
Total gross production (MMCM)	150.17	142.64	5%	131.99	14%	541.08
Total average daily production (MMCM)	<u>1.65</u>	<u>1.58</u>	<u>4%</u>	<u>1.45</u>	<u>14%</u>	<u>1.48</u>
Panzhuang (PZ) gross production (MMCM)	136.37	130.35	5%	124.19	10%	506.13
PZ Multi Lateral Drill (MLD)	87.68	94.70	-7%	114.41	-23%	447.95
PZ Single Lateral Horizontal (SLH)	42.66	30.50	40%	7.20	492%	45.67
PZ Pad Drill Well (PDW)	6.03	5.14	17%	2.58	133%	12.50
Total PZ producing wells**	118	100	18%	78	51%	97
PZ MLD	48	48	0%	49	-2%	49
PZ SLH	54	38	42%	20	170%	34
PZ PDW	16	14	14%	9	78%	14
PZ average daily production (MMCMD)	1.50	1.45	3%	1.36	10%	1.38
PZ MLD	0.96	1.05	-8%	1.26	-23%	1.22
PZ SLH	0.47	0.34	38%	0.08	492%	0.12
PZ PDW	0.07	0.06	16%	0.03	133%	0.03
PZ avg. daily production per well (MCMD)	12.70	14.48	-12%	17.50	-27%	14.26
PZ MLD	20.07	21.92	-8%	25.66	-22%	24.98
PZ SLH	8.68	8.92	-3%	3.96	119%	3.67
PZ PDW	4.14	4.08	1%	3.16	31%	2.44
PZ wells drilled	16	7	129%	8	100%	30
PZ wells fracked	<u>2</u>	<u>1</u>	<u>100%</u>	<u>2</u>	<u>0%</u>	<u>7</u>

2017Q2 update*	Q2 2017	Q1 2017	% change	Q2 2016	% change	2016 Total
Mabi (MB) gross production (MMCM)	13.80	12.30	12%	7.79	77%	34.95
MB MLD	0.04	0.05	-30%	0.04	-7%	0.19
MB SLH	5.45	3.38	61%	0.31	1635%	3.08
MB PDW	8.30	8.86	-6%	7.44	12%	31.69
Total Mabi producing wells**	93	91	2%	121	-23%	121
MB MLD	1	1	0%	3	-67%	2
MB SLH	10	8	25%	10	0%	12
MB PDW	82	82	0%	108	-24%	107
MB average daily production (MCMD)	151.61	136.63	11%	85.63	77%	95.55
MB MLD	0.42	0.61	-31%	0.45	-7%	0.51
MB SLH	59.93	37.53	60%	3.45	1635%	8.40
MB PDW	91.26	98.50	-7%	81.72	12%	86.58
MB avg. daily production per well (MCMD)	1.63	1.50	9%	0.71	130%	0.79
MB MLD	0.42	0.61	-31%	0.15	179%	0.26
MB SLH	5.99	4.69	28%	0.35	1635%	0.70
MB PDW	1.11	1.20	-7%	0.76	47%	0.81
MB wells drilled	16	—	—	2	700%	8
MB wells fracked	0	6	-100%	11	-100%	31

* operations update as of June 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, July 24, 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.