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AAG

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
1st QUARTER 2018 OPERATIONS UPDATE**

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 1st quarter of 2018, i.e. three months ended March 31, 2018 (“2018Q1”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- **HSE continues to outperform the target with zero injury in 2018Q1.**
- **Panzhuang Gas Average Sales Price (“ASP”) increased to 1.57 RMB per cubic meter (“rmb/m³”) (a 20% increase over Panzhuang’s 2017 ASP of 1.31 rmb/m³ and a 24% increase over Panzhuang’s 2017Q1 ASP of 1.26 rmb/m³).**
- **AAG’s gross daily production for 2018Q1 achieved 2.04 MMCM per day (“MMCMD”) (Panzhuang 1.79 MMCMD, Mabi 0.25 MMCMD), an 18% increase compared to the average daily production of 1.72 MMCMD in 2017 (Panzhuang 1.57 MMCMD, 14% increase; Mabi 0.16 MMCMD, 54% increase) or a 29% increase compared to the average daily production of 1.58 MMCMD in 2017Q1 (Panzhuang 1.45 MMCMD, 24% increase; Mabi 0.14 MMCMD, 80% increase).**
- **Panzhuang drilled 13 SLH wells and 1 PDW well in 2018Q1, and 5 wells were put into production during the quarter.**
- **24 PDW wells in Mabi completed fracture work and altogether 56 wells were put into pilot production in 2018Q1.**

HEALTH, SAFETY, ENVIRONMENT (“HSE”) — ZERO INJURY IN Q1

For 2018Q1, AAG’s HSE record outperformed the target and maintained zero incident for total recordable injury rate (“**TRIR**”), lost time injury rate (“**LTIR**”), and preventable motor vehicle accident rate (“**PMVA**”).

AVERAGE SALES PRICE INCREASES FOR PANZHUANG

We are very pleased to report that due to the strong demand for gas in China and the government’s policy/efforts for coal-to-gas conversion, our realized ASP in Panzhuang has increased substantially. Panzhuang’s ASP for 2018Q1 is 1.57 rmb/m³, an increase of 20% compared to the average ASP for 2017 of 1.31 rmb/m³, and an increase of 24% compared to the average ASP for 2017Q1 of 1.26 rmb/m³. In addition, Panzhuang continues to receive 0.3 rmb/m³ subsidy and the VAT refund.

Chinese winter season normally refers to months from November to March, during which period winter heating is provided in Northern China and demand for gas increases.

We do not expect significant drop in ASP in 2018Q2 after the Chinese winter season because:

- (1) Government’s continued efforts to promote energy consumption to switch from coal to gas. As users switch from coal to gas, there is a structural change and accretion of gas demand and it is unrealistic and impractical for users to switch back to coal consumption considering the continuous tightening of environmental regulations and the cost of switching.
- (2) From our experience in 2017, the 2017Q2 ASP did not significantly drop after winter as the China gas market demand boomed.

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 161.3 MMCM in 2018Q1, a 4% increase from last quarter and a 24% increase from 2017Q1. Panzhuang’s average daily production in 2018Q1 was 1.79 MMCMD, a 14% increase compared to the average daily production of 1.57 MMCMD in 2017. In Panzhuang, there are 152 wells in production as at March 31, 2018.

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

MABI CONCESSION — IMPROVED PILOT PERFORMANCE FOR COMMERCIALIZATION AND SUBSTANTIAL INCREASE IN PRODUCTION RATE

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. In 2018, Mabi will focus on the execution of the Overall Development Plan I (“**ODP I**”) implementation plan once ODP I completes filing process.

In 2018Q1, Mabi produced 22.1 MMCM, a 40% increase from last quarter and an 80% increase from 2017Q1. Mabi's average daily production in 2018Q1 was 0.25 MMCMD, a 54% increase compared to the average daily production of 0.16 MMCMD in 2017. In Mabi, there are 183 wells (including the 56 wells put into pilot production referred to below) at various stages of pilot production as at March 31, 2018.

Mabi's ASP remained at 1.14 rmb/m³ in 2018Q1 which is based on a sales mix of pipeline gas and CNG. Mabi's lower ASP compared to Panzhuang is due to temporary CNG sales which are sold at a lower price (otherwise the extra gas produced at Mabi will have to be flared) and because the pipeline gas price has not been adjusted in 2018Q1. However, we expect an upward price adjustment on pipeline gas sales after finalization of discussion with PetroChina in 2018Q2.

In Mabi, AAG completed hydraulic fracture of 24 wells in 2018Q1. Year to date 56 wells have been put into pilot production, including nine wells in northern Mabi previously for exploration purpose. 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.

CHINA GAS MARKET UPDATE

China's total gas demand was up 16% to 46.2 billion cubic meters (“**bcm**”) for the first two months of 2018 compared to the same period in 2017 according to SIA Energy, an independent China-focused oil and gas consulting firm, due to the coal-to-gas conversion program which substantially increased gas demand in 2018 as the PRC Government 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

2018Q1 update*	2018Q1	2017Q4	2017Q1	2017 Total
Total gross production (MMCM)	183.4	171.1	142.6	629.8
Total average daily production (MMCMD)	2.0	1.9	1.6	1.7
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Panzhuang (PZ) gross production (MMCM)	161.3	155.3	130.4	571.6
PZ multi-lateral well (“MLD”)	66.7	75.7	94.7	340.9
PZ SLH	86.1	72.5	30.5	205.7
PZ PDW	8.5	7.2	5.1	25.0
Total PZ producing wells**	152	147	100	147
PZ MLD	49	49	48	49
PZ SLH	83	79	38	79
PZ PDW	20	19	14	19
PZ SLH well drilled***	13	21	7	45
PZ PDW well drilled***	1	–	–	10
PZ PDW well fracked****	1	3	1	6
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Mabi (MB) gross production (MMCM)	22.1	15.8	12.3	58.3
MB PDW	14.2	8.9	8.9	34.4
MB SLH	7.9	6.9	3.4	23.8
Total Mabi producing wells**	183	127	91	127
MB PDW	167	116	82	116
MB SLH	16	10	8	10
MB PDW well drilled***	–	25	–	67
MB PDW well fracked****	24	36	6	56

* Operations update as of March 31, 2018, 8:00 CST

** Well count is calculated from pumping start date

*** Well count is calculated from drilling completion date

**** Well count is calculated from fracture completion 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 annual/interim reports 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, April 16, 2018

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, Saurabh Narayan Agarwal and Fei Nie; and the independent non-executive directors are Yaowen Wu, Robert Ralph Parks, Fredrick J. Barrett and Stephen Cheuk Kin Law.