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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 2018 OPERATIONS UPDATE

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operations update for the 3rd quarter of 2018, i.e. for the three months ended September 30, 2018 (“2018Q3”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- **AAG continues to outperform the HSE target with zero injury in 2018Q3.**
- **AAG’s gross average daily production for 2018Q3 achieved 2.24 MMCMD per day (“MMCMD”) (Panzhuang 1.96 MMCMD, Mabi 0.28 MMCMD), a 3.2% increase compared to the gross average daily production of 2.17 MMCMD in 2018Q2 (Panzhuang 1.87 MMCMD, 4.8% increase; Mabi 0.31 MMCMD, 9.7% decrease), and a 24.4% increase compared to the gross average daily production of 1.80 MMCMD in 2017Q3 (Panzhuang 1.63 MMCMD, 20.2% increase; Mabi 0.17 MMCMD, 64.7% increase).**
- **Panzhuang drilled 15 SLH wells and 2 PDW wells in 2018Q3, and 13 wells were put into production during the quarter.**
- **Panzhuang Average Well-head Sales Price (“ASP”) was 1.66 RMB per cubic meter (“rmb/m³”) in 2018Q3, an increase of 10.7% over Panzhuang’s 2018Q2 ASP 1.50 rmb/m³, and an increase of 31.7% over Panzhuang’s 2017Q3 ASP of 1.26 rmb/m³. Mabi ASP increased by 21% to 1.39 rmb/m³ in 2018Q3 from 1.15 rmb/m³ in 2017Q3.**

- Reference is made to the Southern Block of Mabi Overall Development Plan (“ODP”) of the Company dated October 10, 2018. The National Development and Reform Commission (“NDRC”) of the People’s Republic of China officially announced its “Approval of Overall Development Plan (“ODP”) for Cooperation on Southern Block in Mabi CBM Concession in Shanxi Qinshui Basin, known as “NDRC Energy(2018) No. 1372” on October 8, 2018. Pursuant to the announcement, the approval was officially granted by the end of September 2018.
- The Company prepaid the outstanding utilized loan of US\$89 million and related interest, commitment fee etc. and cancelled the total facility in September 2018.
- Key Highlight After 2018Q3: to enhance the efficiency of on-site technical management, the Company resolved to relocate its headquarters from Beijing to Jincheng City, Shanxi Province with effect from October 10, 2018.

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

For 2018Q3, 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”).

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’s gross production in 2018Q3 was 181 MMCM, a 6.5% increase from last quarter and a 20.7% increase from 2017Q3. Panzhuang’s gross average daily production in 2018Q3 was 1.96 MMCMD, a 4.8% increase compared to the gross average daily production of 1.87 MMCMD in 2018Q2, and a 20.2% increase compared to the gross average daily production of 1.63 MMCMD in 2017Q3, or a 24.8% increase compared to the gross average daily production of 1.57 MMCMD in 2017. In Panzhuang, there were 189 wells in production as at September 30, 2018.

Panzhuang drilled 15 sing-lateral horizontal (“SLH”) wells and 2 pad drill wells (“PDW”) in 2018Q3, and 13 wells were put into production during 2018Q3.

For details of the 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 (“**PetroChina**”), is the leading development stage CBM gas project in China designated under the Energy Plan. Based on the recent success of Mabi pilot production improvement and development optimization, the Mabi concession is ready for a scaled commercial development.

Mabi's gross production in 2018Q3 was 25.8 MMCM, a 7.2% decrease from last quarter but a substantial 57.3% increase from 2017Q3. Mabi's gross average daily production in 2018Q3 was 0.28 MMCMD, a 9.7% decrease compared to the gross average daily production of 0.31 MMCMD in 2018Q2 (the decrease was mainly due to the workover cannot be performed smoothly as the rainy days during the quarter and some production wells entered into production decline phase), and a substantial increase of 64.7% compared to the gross average daily production of 0.17 MMCMD in 2017Q3, or a substantial increase of 75.0% compared to the gross average daily production of 0.16 MMCMD in 2017.

In Mabi, there were 175 wells at various stages of pilot production as at September 30, 2018. It was 9 wells less than the number of pilot production well as at June 30, 2018. The decrease was mainly due to the newly issued exploration license reduced the acreage of Mabi concession and the production wells within the Reduced Acreage were required to be shut-in.

There was no drilling or fracturing work completed in 2018Q3 in the light of the Southern Block of Mabi ODP progress during the quarter.

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

ENCOURAGING PRICE ENVIRONMENT WITH NEW GOVERNMENT POLICY SUPPORT AND STRONG GAS DEMAND

China's total gas consumption was up 15.2% to 182.3 billion cubic meters (“**bcm**”) for the first eight months of 2018 compared to the same period in 2017 according to SIA Energy, an independent China-focused oil and gas consulting firm.

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 and Mabi have increased substantially comparing to the same period in 2017. We expect this strong gas price environment to continue for the rest of 2018.

Panzhuang's ASP was 1.66 rmb/m³ in 2018Q3, a 10.7% increase over Panzhuang's 2018Q2 ASP 1.50 rmb/m³, and a 31.7% increase over Panzhuang's 2017Q3 ASP of 1.26 rmb/m³. In the past two years, Panzhuang's ASP has continued to stay strong even after the peak demand winter season given the coal-to-gas conversion policy and other government efforts. Panzhuang's ASP in the first three quarters of 2018 reached 1.58 rmb/m³, a 20.6% increase over Panzhuang's 2017 ASP of 1.31 rmb/m³.

Mabi's ASP was 1.39 rmb/m³ in 2018Q3, a 21% increase over Mabi's 2017Q3 ASP of 1.15 rmb/m³. Mabi's ASP in the first three quarters of 2018 reached 1.39 rmb/m³, a 22% increase over Mabi's ASP of 1.14 rmb/m³ in 2017.

In addition to the ASP, Panzhuang and Mabi continue to receive 0.3 rmb/m³ subsidy and the VAT refund. In September 2018, China's State Council issued the Several Opinions of the State Council on Promoting the Coordinated and Stable Development of Natural Gas (Guo Fa [2018] No. 31) (國務院關於促進天然氣協調穩定發展的若干意見)(國發[2018]31號), instructed the NDRC and National Energy Administration to study how to extend central treasury's subsidy policy for unconventional natural gas (0.3 rmb/m³ for coal-bed methane) to the Fourteenth Five-Year Plan Period.

Besides the government's coal-to-gas policy, NDRC introduced a Circular on Straightening the Gas Station Price of Natural Gas Used for Residential Purpose (Fa Gai Price Gui [2018] No. 794) (國家發展改革委員會關於理順居民用氣門站價格的通知(發改價格規[2018]794號)) in late May 2018 to merge the two-tier gas pricing mechanism of residential-use gas prices together with non-residential-use gas prices in China. This will further improve expected gas prices in China. In the past, China had a two-tier gas pricing policy where residential-use gas was priced significantly lower than non-residential-use gas. The city-gate gas distributors negotiate gas price with gas suppliers based on the expected mix of residential users versus non-residential users in that city. As a result, the gas price negotiated with city-gate distributors is a blended gas price comprising residential and non-residential users. With the merge of two-tier gas pricing mechanism, the blended gas price used for negotiation between gas supplier and city-gate gas distributors will gradually increase. Bringing residential-use gas prices up to the level of non-residential gas price at each provincial-gate, provides another stimulus to increase gas price in the coming quarters. Moreover, with international oil prices trading around US\$80/bbl, the spot LNG import price (which is linked to international oil price) plus transmission costs to Henan and Shanxi (being markets that we sell our gas to) will be even less competitive with our gas. It is the Company's belief that gas use promotion policy and environmental protection will continue to be resilient growth drivers in the medium and long term.

MABI ACREAGE DECREASE UNDER NEW EXPLORATION LICENSE AND POTENTIAL IMPACT ON RESERVES

According to the relevant provisions of the Natural Resources Department and the Department of Land Resources of Shanxi Province, it is required that the overlapping acreage of the Mabi original exploration of the Company and the conservation zone shall be separated as a reserve area. Exploitation under the exploration rights falling within the reserve area may commence subject to the opinions issued by the Natural Resources Department on clarifying the exploration rights of the reserve area within the conservation zone. During the reserve period, no other enterprises or individuals are entitled to apply for the exploration rights attached to the reserve area of the Company. The acreage of such a reserve area only accounts for 7.68% of the Mabi original exploration concession, while the proven reserve decreases by 11.28%.

In submitting the application for extension of exploration licenses, the Company has also submitted specific explanatory documents in connection with reservation of exploration concession for the overlapping acreage.

PREPAYMENT AND CANCELLATION OF RESERVE BASED LENDING FACILITY (“RBL”)

On July 8, 2015, Sino-American Energy, Inc. (“SAEI”), an indirect wholly owned subsidiary of the Company, entered into a New US\$250 million RBL with The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, Bank of Communication Ltd, Offshore Banking Unit and Societe Generale, Singapore Branch. As at June 30, 2018, the utilized portion of the New US\$250 million RBL was US\$89 million.

Over the last two years, AAG Energy’s operating profits have significantly increased with an ample amount of cash and deposits with banks. Therefore, the Company prepaid the outstanding utilized RBL of US\$89 million and related interest, commitment fee etc., and cancelled the total facility in September 2018.

As the prepayment and cancellation of RBL, the non-cash unamortized cost related to the New US\$250 million RBL needs to be written off in the statement of comprehensive income. We estimated that the impact to profit before income tax for 2018 will be around RMB18 million.

SOUTHERN BLOCK OF MABI ODP RECEIVED NDRC APPROVAL

Reference is made to the Southern Block of Mabi Overall Development Plan (“ODP”) dated October 10, 2018 of the Company. The NDRC officially announced its “Approval of Overall Development Plan for Cooperation on Southern Block in Mabi CBM Concession in Shanxi Qinshui Basin, known as “NDRC Energy(2018) No. 1372” on October 8, 2018. Pursuant to the announcement, the approval was officially granted by the end of September 2018. Following the medium and long-term project planning, the Company will commence to expedite the commercial exploration with effect from 2019.

RELOCATION OF COMPANY’S BEIJING HEADQUARTERS

To enhance the efficiency of on-site technical management, the Company resolved to relocate its headquarters from Beijing to Jincheng City, Shanxi Province with effect from October 10, 2018. Such relocation involves certain relocation fees, which will be reflected in the 2018 annual report of the Company.

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

2018Q3 update*	2018Q3	2018Q2	2017Q3	2017 Total
Total gross production (MMCM)	206.4	197.8	165.9	629.8
Total average daily production (MMCMD)	2.2	2.2	1.8	1.7
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Panzhuang (PZ) gross production (MMCM)	180.6	169.9	149.5	571.6
PZ multi-lateral well (“MLD”)	62.3	65.7	82.8	340.9
PZ SLH	107.6	95.6	60.0	205.7
PZ PDW	10.7	8.6	6.6	25.0
Total PZ producing wells**	189	176	136	147
PZ MLD	49	49	49	49
PZ SLH	109	104	71	79
PZ PDW	31	23	16	19
PZ SLH well drilled***	15	16	10	45
PZ PDW well drilled***	2	5	1	10
PZ PDW well fracked****	7	4	—	6
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Mabi (MB) gross production (MMCM)	25.8	27.8	16.4	58.3
MB PDW	19.4	20.3	8.3	34.4
MB SLH	6.4	7.5	8.1	23.8
Total Mabi producing wells**	175	184	100	127
MB PDW	162	168	90	116
MB SLH	13	16	10	10
MB PDW well drilled***	—	—	—	67
MB PDW well fracked****	—	—	—	56

* Operations update as of September 30, 2018, 08:00 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 2018 annual report may be different due to difference in reference date or time. Shareholders and potential investors of the Company are advised to exercise caution when dealings in the shares of the Company.

On behalf of the Board
AAG Energy Holdings Limited
Zaiyuan Ming
Chairman and Executive Director

Hong Kong, October 30, 2018

As at the date of this announcement, the executive directors are Mr. Zaiyuan Ming, Mr. Danhua Yan, Mr. Jianbing Zhang and Dr. Stephen Xiangdong Zou; the non-executive directors are Mr. Lei Jin, Dr. Guiyong Cui, and Mr. Saurabh Narayan Agarwal; and the independent non-executive directors are Mr. Alexander Kwok Leung Tai and Dr. Xiaofeng Liu.