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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
4th QUARTER 2017 OPERATIONS UPDATE**

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 4th quarter of 2017, i.e. three months ended December 31, 2017 (“2017Q4”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- **HSE continues to outperform the target with zero injury in Q4**
 - AAG has achieved 5 million man-hours (3 years and 111 days) without Lost Time Injury on 25th December, 2017
- **Panzhuang Gas sales price increased by 22% from 1.26 rmb/m³ to 1.54 rmb/m³ for Q4**
- **Panzhuang maintained exceptional utilization rate of 98% in Q4**
- **Gross production surpassed the guidance for Full Year 2017 achieving 629.84 MMCM (Panzhuang 571.56, Mabi 58.28 MMCM), a 16% YoY increase.**
 - Q4 gross production of 171 MMCM, 18% YoY increase for Panzhuang and 23% YoY increase for Mabi
 - Q4 total daily production averaged 1.86 MMCM per day
- **2017 drilling program exceeded plan, with 46 wells drilled in Q4 and 122 wells drilled for the year**
 - 55 wells drilled in Panzhuang (45 SLH, 10 PDW), passing full year target of 29 wells and 67 wells drilled in Mabi, completed the target drilling plan.
- **Excellent performance in cost control for Full Year 2017**
 - Panzhuang drilling costs reduced by 24% YOY for 45 SLH wells
 - Mabi drilling costs 30% under budget and completion costs 25% under budget for 67 PDW wells

AAG GROSS PRODUCTION SURPASSES 2017 TARGET

AAG produced 171 million cubic meters (“**MMCM**”) of gas in 2017Q4, a 3% increase from last quarter. Of the 171 MMCM produced in 2017Q4, 155 MMCM was from our Panzhuang concession and 16 MMCM was from the Mabi concession. AAG’s total average daily production in 2017Q4 was 1.86 MMCM per day (“**MMCMD**”), comprising 1.69 MMCMD from Panzhuang and 171.6 thousand cubic meters per day (“**MCMD**”) from Mabi pilot production.

AVERAGE SALES PRICE INCREASES FOR PANZHUANG

We are very pleased to report that due to the strong demand for gas in China, our realized Average Sales Price (“**ASP**”) in Panzhuang has increased substantially in 2017Q4. The Panzhuang Gas sales price increased by 22% from 1.26 RMB per cubic meter (“**rmb/m³**”) to 1.54 rmb/m³ during the quarter, not to mention Panzhuang continues to receive 0.3 rmb/m³ subsidy, and the VAT refund. Panzhuang’s ASP of 1.54 rmb/m³ for 2017Q4 increased significantly when compared to Panzhuang’s ASP for the whole year of 2016 of 1.20 rmb/m³. Our marketing and sales teams have successfully signed three new contracts and six price adjustment agreements with a diversified customer base through both LNG and Pipeline channels. These contracts will guarantee these high prices will stay in place till the end of the winter months. Furthermore, the pipeline tariff decreased by 22%, locking in a larger margin going forward.

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 155 MMCM in 2017Q4, a 4% increase from last quarter. Total annual production from Panzhuang reached 571.56 MMCM, surpassing our 2017 production target of 557 MMCM with 13% increase year on year. Panzhuang’s average daily production in 2017Q4 was 1.69 MMCMD, an 18% increase year on year. The sales utilization rate in Panzhuang has remained very high at 98% during 2017Q4.

The Panzhuang 2017 work plan focused on increasing production growth while driving costs down. In 2017Q4, we added 12 wells onto production in Panzhuang for a total of 147 producing wells. In 2017Q4, we completed drilling a total of 21 wells, for a total of 55 wells (45 Single Lateral Horizontal (“**SLH**”), 10 Pad Drill Wells (“**PDW**”)) drilled in the full year. Our original 2017 drilling plan for Panzhuang was 29 wells, however, with the cost savings we experienced in 2017H1, we used those savings to increase the number of wells to be drilled in 2017.

The current processing capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 5 gas gathering stations, 18 wellhead compressors, 55.4 km of trunk links and 90 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 increase 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. In 2017, Mabi focused on improving pilot performance, initiating cost control and preparing for the commercial development after Overall Development Plan approval is received.

In 2017Q4, Mabi produced 16 MMCM, a 23% year on year increase. Single well production on average was 1.35 MCMD, a year on year increase of 17%. Total annual production from Mabi reached 58.3 MMCM, surpassing our 2017 production target of 58 MMCM with 67% increase year on year. In Mabi, there are 127 wells at various stages of pilot production. Mabi's pilot production continues to sell through PetroChina's West East pipeline 1 as per our pilot gas sales contract signed in the 2017Q3. In addition, during 2017Q4, one pad in the north of Mabi started Compressed Natural Gas ("CNG") sales in November.

In Mabi, AAG completed drilling a total of 25 wells and hydraulic fractured 36 wells in 2017Q4. Year to date 67 wells have completed drilling and 56 wells have been hydraulic fractured. The average cost of these 67 wells for drilling and completion are approximately 30% and 25% lower respectively compared to the budget. A combination of low cost 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.

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

HEALTH, SAFETY, ENVIRONMENT (“HSE”) — ZERO INJURY IN Q4

For 2017Q4, 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**”), the accident in 2017Q3 resulted in 2017Q4 maintaining a slightly higher rate of 0.87, passing our yearly target of 0.8. No one was injured and we have implemented safety and training measures to prevent further traffic accidents in the future. AAG has achieved 5 million man-hours (3 years and 111 days) without LTI on 25th December, 2017.

CAPEX AND COST UPDATE (AS OF DECEMBER 31, 2017)

Out of the planned capital expenditure (“**Capex**”) budget of RMB602 million (“**MM**”) for 2017 as revised in the 2017 Interim Report on 24 August 2017, AAG has incurred RMB192.2 MM in total Capex in 2017Q4. The total annual incurred Capex was RMB487.29 MM for 2017 (based on the latest management accounts), compared to RMB657.15 MM for 2016.

Costs per well continue to fall for Panzhuang. The average drilling cost for 1 SLH well in Panzhuang was RMB2.9 MM in 2017Q4 down from RMB3.31 MM in 2017Q1, and these wells were drilled in just 15.8 days on average in 2017Q4. 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 RMB0.83 MM in 2017Q4 with wells drilled in just 5 days, representing only 70% 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 demand was up 16% year on year to 217 billion cubic meters (“**bcm**”) for the period from January to November 2017, according to SIA Energy, an independent China-focused oil and gas consulting firm, owing to the coal-to-gas conversion program which substantially increased gas demand in 2017 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

2017Q4 update*	2017Q4	2017Q3	% change	2016Q4	% change	2016 Total
Total gross production (MMCM)	171.13	165.90	3%	144.17	19%	541.08
Total average daily production (MMCMD)	1.86	1.80	3%	1.57	18%	1.48
Panzhuang (PZ) gross production (MMCM)	155.34	149.50	4%	131.32	18%	506.13
PZ MLD	75.65	82.84	-9%	107	-29%	447.95
PZ SLH	72.50	60.01	21%	20.18	259%	45.67
PZ PDW	7.20	6.65	8%	4.55	58%	12.50
Total PZ producing wells**	147	135	9%	97	52%	97
PZ MLD	49	49	0%	49	0%	49
PZ SLH	79	70	13%	29	172%	34
PZ PDW	19	16	19%	14	36%	14
PZ daily production (MMCMD)	1.69	1.63	4%	1.43	18%	1.38
PZ MLD	0.82	0.90	-9%	1.16	-29%	1.22
PZ SLH	0.79	0.65	21%	0.22	259%	0.12
PZ PDW	0.08	0.07	8%	0.05	58%	0.03
PZ average daily production per well (MCMD)	11.49	12.04	-5%	14.72	-22%	14.26
PZ MLD	16.78	18.38	-9%	23.65	-29%	24.98
PZ SLH	9.97	9.32	7%	7.56	32%	3.67
PZ PDW	4.12	4.52	-9%	3.53	17%	2.44
PZ wells drilled	21	11	91%	10	110%	30
PZ wells fracked	3	-	100%	-	0%	7
Mabi (MB) gross production (MMCM)	15.8	16.40	-4%	12.85	23%	34.95
MB MLD	0.0	0.02	-98%	0.07	-99%	0.19
MB SLH	6.9	8.07	-15%	2.06	232%	3.08
MB PDW	8.9	8.31	7%	10.71	-17%	31.69
Total Mabi producing wells*	127	100	27%	121	5%	121
MB MLD	1	1	0%	2	-50%	2
MB SLH	10	10	0%	12	-17%	12
MB PDW	116	89	30%	107	8%	107
MB average daily production (MCMD)	171.63	178.29	-4%	139.70	23%	95.49
MB MLD	0.00	0.21	-98%	0.78	-99%	0.51
MB SLH	74.49	87.72	-15%	22.44	232%	8.40
MB PDW	97.13	90.36	7%	116.46	-17%	86.58
MB average daily production per well (MCMD)	1.35	1.78	-24%	1.15	17%	0.79
MB MLD	0.00	0.21	-98%	0.39	-99%	0.26
MB SLH	7.45	8.77	-15%	1.87	298%	0.70
MB PDW	0.84	1.02	-18%	1.09	-23%	0.81
MB wells drilled	25	26	-4%	-	0%	8
MB wells fracked	36	14	157%	4	800%	31

* Operations update as of Dec 31, 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, February 8, 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.