

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2017 OPERATIONS UPDATE

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 1st quarter of 2017, i.e. three months ended March 31, 2017 (“2017Q1”) to its shareholders and potential investors on a voluntary basis.

Key Quarterly Highlights:

- Gross production and daily production continue to increase, up 20% year on year.
- 2017 drilling program on schedule
- Gas sales with exceptional utilization rate of 97%.
- Drilling costs continue to fall in Panzhuang.

(Operations update as of March 31, 2017, 08:00 CST)

PRODUCTION

AAG produced 143 million cubic meters (“MMCM”) of gas in 2017Q1. Of the 143 MMCM produced in 2017Q1, 130.4 MMCM was from our Panzhuang concession and 12.3 MMCM was from the Mabi concession.

PANZHUANG AND MABI DAILY PRODUCTION CONTINUE TO GROW

AAG's total average daily production in 2017Q1 was 1.58 MMCM per day ("MMCMD"). Panzhuang's average daily production in 2017Q1 was 1.45 MMCMD. Compared to the average daily production of 1.28 MMCMD in the three months ended March 31, 2016 ("2016Q1"), this is a 13% increase. AAG is very proud of Panzhuang's high production record, as it continues to have the highest average daily production rate of any coal bed methane asset in China. Mabi's average daily pilot production in 2017Q1 was 137 thousand cubic meters per day ("MCMD"). This represents a 251% increase from 2016Q1. The 2016 average daily production for Mabi was 95.55 MCMD.

PANZHUANG AND MABI SINGLE WELL PRODUCTION

In 2017Q1, Panzhuang single well production maintained 14 MCMD per well. In the past, we drilled mostly multi lateral drilling ("MLD") wells in Panzhuang. This year, like last year we will focus on drilling primarily single lateral horizontals ("SLH") wells in Panzhuang. When considering the geology and engineering viability of developing lower seams, SLH wells are a better fit. Although the per well production in Panzhuang has decreased, the gross production overall has increased. The Panzhuang production per well decrease is mainly due to the natural decline of existing MLD wells, new development in different coal seams, and the application of the new SLH well type.

There are several Mabi pilot wells that are approaching Panzhuang's average per well daily production levels. On 31 March, 2017, single well MB01-B2-47L-13 (SLH with multi-stage fracture stimulation) produced 25 MCMD. Of the pad drill wells ("PDW"), pad MB02-A3-67S with 12 PDWs is still maintaining a high rate of production, and produced 32 MCMD on 31 March, 2017 representing an average of 2.6 MCMD per well. Overall, Mabi production per well is almost 3 times higher year on year. AAG will continue to invest in technical improvements in Mabi by implementing mostly PDWs, with hydraulic fracture stimulation in multiple coal seams.

WELL COUNT FOR PANZHUANG AND MABI

In 2017Q1, 3 wells were added to production in Panzhuang after dewatering or other work over activities. In 2017Q1 Panzhuang has a total 100 wells in production, comprising 14 PDW, 48 MLD and 38 SLH wells. In 2016Q1, Panzhuang had a total of 64 wells in production, comprising 8 PDW, 49 MLD, and 7 SLH wells. Since 2016Q1, we have added 36 new wells in Panzhuang, mostly SLH wells. Of the 36 new wells, many SLHs are still dewatering or decreasing their bottom hole pressure, and have yet to meet their full potential.

In Mabi, there are 91 wells at various stages of pilot production. Of these pilot wells, there are 82 PDW, 8 SLH, and 1 MLD wells. In 2016Q1, Mabi had 99 wells but production was one quarter the current rate. We have been testing several different well types and completion techniques in Mabi over the years in our effort to improve the single well economics. We shut in 30 old test wells since last quarter, while still maintaining a similar level of production. This shows our commitment to focus on drilling economic wells going forward in Mabi based on the learning curve over the past several years.

DRILLING AND OPERATION

Panzhuang: In 2017Q1, AAG spudded a total of 7 wells in Panzhuang, all SLH wells. We currently have 5 rigs running and are on schedule to complete the 2017 drilling plan of 29 SLH wells. The current production capacity of our Panzhuang surface facilities is about 2.45 MMCMD, with 5 gas gathering stations, 16 wellhead compressors, 51.2 km of trunk links and 84.3 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 in 2017.

Mabi: AAG completed the rig and equipment tendering in Mabi during 2017Q1, and will commence drilling in the second quarter of 2017. The fracture stimulation work plan on previously drilled vertical wells will continue this year and we fracture stimulated 6 wells in 2017Q1. AAG will build off the success of previously drilled PDW wells in Seam 3 and Seam 15, and will focus almost exclusively on PDWs in 2017. A combination of low cost PDW wells, combined with well casing and hydraulic fracture completion will allow for one well to reach multiple coal seams with the lowest investment. We hope this will further contribute to production increase in an economic way.

EXPLORATION PROGRAM

In 2017Q1, AAG fracture stimulated 3 exploration wells in Mabi, and 2 reserve wells qualified for Proved + Probable (“**2P**”) reserves upgrade for both requirements of the PRC Ministry of Land and Resources, (中華人民共和國國土資源部) and the Society of Petroleum Engineers reserve creditors, such as Netherland, Sewell & Associates, Inc. In 2017, the exploration program will focus on 2P reserves upgrade and the pilot test program in northern Mabi. The Mabi reserve update program will cover the southwestern and northeastern parts of Mabi.

For pilot test production, in total, there are 3 pads with 24 PDWs and 2 SLH wells under production test in the northeastern area of Mabi. Pad MB10-A8-24S with 7 PDWs is at stable production with a daily production of 14 MCMD as of 31, March 2017. The two remaining pads with 17 PDWs, are currently under pumping and dewatering.

MARKETING AND SALES

The sales utilization rate in Panzhuang remained high at 97% over 2017Q1.

China’s total gas demand was up 3% year on year to 40 billion cubic meters (“**bcm**”) for the period from January to February 2017 according to SIA Energy, an independent China-focused oil and gas consulting firm. The coal-to-gas conversion program will further 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. Further, the Company expects oil price recovery will also restore the competitiveness of gas over oil products in 2017.

HEALTH, SAFETY, ENVIRONMENT (HSE)

For 2016, AAG had zero incidents across our employee total recordable injury rate (“**TRIR**”), lost time injury rate (“**LTIR**”), and preventable motor vehicle accident rate (“**PMVA**”). For 1Q2017, LTIR and TRIR were both Zero, while the PMVA was 1.93, exceeding our PMVA target of 0.8. To address this issue going forward, AAG conducted defensive driving training, and a traffic safety campaign in 2017Q1 in order to reduce motor vehicle accidents. AAG always pays close attention to traffic safety and the wellbeing of our employees.

AAG completed its first Environment, Safety and Governance (“**ESG**”) report in March 2017 which was published as part of the annual report for the year ended December 31, 2016 of the Company and can be viewed on our website, <http://www.aagenergy.com>.

PARTNER RELATIONS AND APPROVALS

All Mabi Overall Development Plan Phase I (“**ODP I**”) associated pre-approvals have been secured, including land use, social stability assessment and environment impact assessment, etc. The Mabi ODP I report has been revised based on the latest progress made in the Mabi pilot program and changed market conditions, and is currently under final review by our project partner, China National Petroleum Corporation (中國石油天然氣集團公司, “**CNPC**”), and it will be submitted to the NDRC afterwards. Based on prior experience, once submission is made to the NDRC, Mabi ODP I approval is expected to be obtained within 6 to 12 months.

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

Out of the planned capital expenditure (“**Capex**”) budget of RMB590 million (“**MM**”) for 2017, AAG has incurred RMB82 MM in total Capex in 2017Q1. Costs per well continue to fall for Panzhuang. The average drilling cost for 1 SLH well in Panzhuang was reduced further to RMB3.31 MM in 2017Q1 down from RMB3.5 MM in 2016Q4, and these wells were drilled in just 20.5 days on average in 2017Q1. This is a big savings from the 2015 average drilling cost per SLH well in Panzhuang of RMB5.8 MM, with wells drilled in 31 days. AAG remains committed to driving costs down and keeping a healthy margin during this low-price environment.

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

2017Q1 update	Q1 2017	Q4 2016	% change	Q1 2016	% change	2016 Total
Total gross production	142.64	144.18	-1%	119.80	19%	541.08
Total average daily production	1.58	1.5697	1%	1.32	20%	1.48
PZ gross production (MMCM)	130.35	131.33	-1%	116.26	12%	506.13
Total PZ producing wells*	100	97	3%	64	56%	97
PZ MLD	48	49	-2%	49	-2%	49
PZ SLH	38	34	12%	7	443%	34
PZ PDW	14	14	0%	8	75%	14
PZ average daily production (MMCMD)	1.45	1.43	1%	1.28	13%	1.38
PZ avg. daily production per well (MCMD)	14.48	14.72	-2%	19.96	-27%	14.26
PZ wells drilled	7	14	-50%	5	40%	30
PZ wells fracture stimulated	1	0	0%	0	N/A	7
MB gross production (MMCM)	12.30	12.85	-4%	3.54	247%	34.95
Total MB producing wells*	91	121	-25%	99	-8%	121
MB MLD	1	2	-50%	4	-75%	2
MB SLH	8	12	-33%	7	14%	12
MB PDW	82	107	-23%	88	-7%	107
MB average daily production (MCMD)	136.63	139.7	-2%	38.91	251%	95.55
MB avg. daily production per well (MCMD)	1.50	1.15	31%	0.39	282%	0.79
MB wells drilled	0	2	-100%	0	N/A	8
MB wells fracture stimulated	6	4	50%	12.00	-50%	31

* 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, April 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.