

*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 2nd QUARTER 2018 OPERATIONS UPDATE**

AAG Energy Holdings Limited (“AAG” or the “Company”) hereby provides its operation update for the 2nd quarter of 2018, i.e. three months ended June 30, 2018 (“2018Q2”) to its shareholders and potential investors on a voluntary basis.

#### **Key Quarterly Highlights:**

- **AAG continues to outperform the HSE target with zero injury in 2018Q2.**
- **AAG’s gross average daily production for 2018Q2 achieved 2.17 MMCMD per day (“MMCMD”) (Panzhuang 1.87 MMCMD, Mabi 0.31 MMCMD), a 6.4% increase compared to the gross average daily production of 2.04 MMCMD in 2018Q1 (Panzhuang 1.79 MMCMD, 4.5% increase; Mabi 0.25 MMCMD, 24.0% increase), and a 31.5% increase compared to the gross average daily production of 1.65 MMCMD in 2017Q2 (Panzhuang 1.50 MMCMD, 24.7% increase; Mabi 0.15 MMCMD, 106.7% increase).**
- **Panzhuang drilled 16 SLH wells and 5 PDW wells in 2018Q2, and 24 wells were put into production during the quarter.**
- **Mabi Gas Average Well-head Sales Price (“ASP”) increased by 39.5% to 1.59 RMB per cubic meter (“rmb/m<sup>3</sup>”) in 2018Q2 (inclusive of retrospective adjustment for 2018Q1) from 1.14 rmb/m<sup>3</sup> in 2018Q1, and a 40.7% increase over Mabi’s 2017Q2 ASP of 1.13 rmb/m<sup>3</sup>. This increase resulted from the finalization of discussion with PetroChina and approval by the Joint Management Committee of Mabi in 2018Q2 on pipeline sales price for 2018 and the upward pipeline gas price adjustment with effect from January 2018.**

- **Panzhuang ASP was 1.50 rmb/m<sup>3</sup> in 2018Q2, a slight decrease of 4.5% (despite the end of the peak demand winter period in March 2018 and the start of the summer period in April 2018) over Panzhuang’s 2018Q1 ASP 1.57 rmb/m<sup>3</sup>, but a 20.0% increase over Panzhuang’s 2017Q2 ASP of 1.25 rmb/m<sup>3</sup>.**
- **Regarding Mabi Overall Development Plan Phase I (“ODP I”) progress, AAG and PetroChina jointly decided to go through the requirements and procedures for approval process to obtain ODP approval (“NDRC Approval Process”) given that Mabi has been waiting for the requirements and procedures for the filing process for ODP approval (“NDRC Filing Process”) since early 2017 when the NDRC announced that the NDRC Approval Process will be changed to the NDRC Filing Process. In June 2018, PetroChina submitted Mabi ODP I to NDRC to commence the NDRC Approval Process. As a result of this change, we expect to obtain the NDRC approval for Mabi ODP I by end of 2018 and be able to start the scaled development of ODP I in 2019.**

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

For 2018Q2, 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 2018Q2 was 169.94 MMCM, a 5.3% increase from last quarter and a 24.6% increase from 2017Q2. Panzhuang’s gross average daily production in 2018Q2 was 1.87 MMCMD, a 4.5% increase compared to the gross average daily production of 1.79 MMCMD in 2018Q1, and a 24.7% increase compared to the gross average daily production of 1.50 MMCMD in 2017Q2, or a 19.1% increase compared to the gross average daily production of 1.57 MMCMD in 2017. In Panzhuang, there are 176 wells in production as at June 30, 2018.

Panzhuang drilled 16 SLH wells and 5 PDW wells in 2018Q2, and 24 wells were put into production during the quarter.

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. Based on the recent success of Mabi pilot production improvement and development optimization, the Mabi concession is ready for scaled commercial development.

Mabi's gross production in 2018Q2 was 27.8 MMCM, a 25.8% increase from last quarter and a substantial 101.4% increase from 2017Q2. Mabi's gross average daily production in 2018Q2 was 0.31 MMCMD, a 24.0% increase compared to the gross average daily production of 0.25 MMCMD in 2018Q1, and a 106.7% increase compared to the gross average daily production of 0.15 MMCMD in 2017Q2, or a 93.8% increase compared to the gross average daily production of 0.16 MMCMD in 2017. Year-on-year, Mabi made very substantial increases in production as it prepares for ODP I approval. In Mabi, there are 184 wells at various stages of pilot production as at June 30, 2018.

There was no drilling or fracturing work completed in 2018Q2 in the light of the Mabi ODP I progress.

For a detailed 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% to 112.5 billion cubic meters (“bcm”) for the first five 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.

Mabi's ASP increased by 39.5% to 1.59 rmb/m<sup>3</sup> in 2018Q2 (inclusive of retrospective adjustment for 2018Q1) from 1.14 rmb/m<sup>3</sup> in 2018Q1, and a 40.7% increase over Mabi's 2017Q2 ASP of 1.13 rmb/m<sup>3</sup>. In 2018Q2, we finalized discussions with PetroChina and the Joint Management Committee for Mabi approved the new 2018 pipeline well-head sales price of 1.47 rmb/m<sup>3</sup> with effect from January 2018. However, given that Mabi was recording gas sales at 1.14 rmb/m<sup>3</sup> since January 2018 (being Mabi's ASP for 2017), there was a retroactive price adjustment in 2018Q2 to 1.59 rmb/m<sup>3</sup> to make adjustment for gas delivered to PetroChina recorded using the old gas price of 1.14 rmb/m<sup>3</sup> since January 2018. Mabi's ASP in first half of 2018 (“**2018H1**”) reached 1.40 rmb/m<sup>3</sup>, a 22.8% increase over Mabi's 2017 ASP of 1.14 rmb/m<sup>3</sup>.

Panzhuang's ASP was 1.50 rmb/m<sup>3</sup> in 2018Q2, a slight decrease of 4.5% (despite the end of the peak demand winter season in March 2018 and the start of the summer season in April 2018) over Panzhuang's 2018Q1 ASP 1.57 rmb/m<sup>3</sup>, but a 20.0% increase over Panzhuang's 2017Q2 ASP of 1.25 rmb/m<sup>3</sup>. 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 2018H1 reached 1.53 rmb/m<sup>3</sup>, a 16.8% increase over Panzhuang's 2017 ASP of 1.31 rmb/m<sup>3</sup>.

In addition to the ASP, Panzhuang and Mabi continue to receive 0.3 rmb/m<sup>3</sup> subsidy and the VAT refund.

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 ODP I PROGRESS**

Since the State Council published the announcement in early 2017 saying that all Sino-foreign CBM Overall Development Plans would no longer require approval from NDRC but go through the NDRC Filing Process to obtain approval for Overall Development Plans, we have been waiting for the requirements and procedures to obtain ODP approval using the NDRC Filing Process. However, up to now, such requirements and procedures for the NDRC Filing Process have still not been issued. Based on recent discussions with our partner, PetroChina, and its communication with NDRC, AAG and PetroChina jointly decided to go through the NDRC Approval Process given that Mabi has been waiting for the requirements and procedures for NDRC Filing Process since early 2017. In June 2018, PetroChina submitted Mabi ODP 1 to the NDRC to commence the NDRC Approval Process. As a result of this change, we expect to obtain the approval from NDRC for Mabi ODP I by end of 2018 and be able to start the scaled development of ODP I in 2019. Accordingly, we plan to revise the Mabi capital expenditure plan for 2018 in the 2018 interim report. It is not expected that there will be significant changes in our expected production target for Mabi in 2018 as a result of the change in Mabi's capital expenditure plan. Further details will be provided in our 2018 interim report.

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

<b>2018Q2 update*</b>	<b>2018Q2</b>	<b>2018Q1</b>	<b>2017Q2 2017</b>	<b>Total</b>
Total gross production (MMCM)	<b>197.8</b>	<b>183.4</b>	<b>150.2</b>	<b>629.8</b>
Total average daily production (MMCMD)	<b>2.2</b>	<b>2.0</b>	<b>1.7</b>	<b>1.7</b>
Panzhuang (PZ) gross production (MMCM)	169.9	161.3	136.4	571.6
PZ multi-lateral well (“MLD”)	65.7	66.7	87.7	340.9
PZ SLH	95.6	86.1	42.7	205.7
PZ PDW	8.6	8.5	6.0	25.0
Total PZ producing wells**	176	152	118	147
PZ MLD	49	49	48	49
PZ SLH	104	83	54	79
PZ PDW	23	20	16	19
PZ SLH well drilled***	16	13	14	45
PZ PDW well drilled***	5	1	2	10
PZ PDW well fracked****	4	1	2	6
Mabi (MB) gross production (MMCM)	27.8	22.1	13.8	58.3
MB PDW	20.3	14.2	8.3	34.4
MB SLH	7.5	7.9	5.5	23.8
Total Mabi producing wells**	184	183	93	127
MB PDW	168	167	82	116
MB SLH	16	16	10	10
MB PDW well drilled***	—	—	—	67
MB PDW well fracked****	—	24	—	56

\* Operations update as of June 30, 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, July 11, 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, and Saurabh Narayan Agarwal; and the independent non-executive directors are Yaowen Wu, Robert Ralph Parks, Fredrick J. Barrett and Stephen Cheuk Kin Law.*