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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 4th QUARTER 2016 OPERATIONS UPDATE

INSIDE INFORMATION ANNOUNCEMENT TERMINATION OF DEFINITIVE BID FOR PROPOSED ACQUISITION

AAG Energy Holdings Limited (“AAG”) hereby provides its operation update for the 4th quarter of 2016, i.e. 3 months ended December 31, 2016 (“2016Q4”) and a summary of gas production for 2016, to its shareholders and potential investors on a voluntary basis.

Pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), AAG also wishes to announce the termination of definitive bid for a proposed acquisition as referred to in AAG’s announcement dated August 30, 2016.

(Operations update as of December 31, 2016, 08:00 CST)

PRODUCTION

AAG total gross production and daily production are both up compared to last year.

AAG produced 144 million cubic meters (“MMCM”) of gas in 2016Q4 compared to 145 MMCM in the 3 months ended September 30, 2016 (“2016Q3”). Of the 144 MMCM produced in 2016Q4, 131 MMCM was from our Panzhuang concession and 13 MMCM was from the Mabi concession. AAG’s 2016 gross production was 541 MMCM, comprising 506 MMCM from Panzhuang and 35 MMCM from Mabi, an increase of 7% from 2015. This is just shy of the full-year expectation of 564 MMCM as mentioned in AAG’s Interim Report for the six months ended June 30, 2016 (“1H2016”). AAG’s total average daily production in 2016 increased to 1.48 MMCMD per day (“MMCMD”) (comprising 1.38 MMCMD from Panzhuang and 95.55 thousand cubic meters per day (“MCMD”) from Mabi), compared to 1.38 MMCMD in 2015 (comprising 1.34 MMCMD from Panzhuang and 43.65 MCMD from

Mabi), an increase of 7%. Panzhuang's 2016 gross production of 506 MMCM represents an increase of 3% compared to last year's Panzhuang gross production of 488 MMCM. Mabi's 2016 gross pilot production increased to 35 MMCM, achieving our expectation for the year of 35 MMCM. This is over two times Mabi's 2015 annual production volume of 16 MMCM. This demonstrates encouraging progress for Mabi pilot production, and ramp up to commercial development upon receiving overall development plan ("ODP") approval.

PANZHUANG DAILY PRODUCTION IS STEADY AND MABI DAILY PRODUCTION IS UP

Panzhuang's daily production in 2016Q4 was 1.43 MMCMD. In 2016, Panzhuang's daily production remained steady at an average of 1.38 MMCMD, an increase of 3% over last year. AAG is very proud of Panzhuang's high production record, as it continues to be the best coal bed methane asset in China. Mabi's average daily pilot production increased a further 124% from 1H2016 to 140 MCMD in 2016Q4. This represents a 267% increase from 2015Q4. The 2016 average daily production for Mabi was 95.55 MCMD.

PANZHUANG SINGLE WELL PRODUCTION IS STEADY, MABI SINGLE PILOT WELL PRODUCTION IS IMPROVING

In 2016Q4, Panzhuang single well production remained strong at an average of 14 MCMD per well. This average is strong considering there were 34 new wells put into production in 2016. There are several Mabi pilot wells that are approaching Panzhuang's daily production levels. On December 31, single well MB01-B2-47L-13 (Single Lateral Horizontals ("SLH") with multi-stage frack) averaged 12.6 MCMD in December, and hit a peak gas rate of 18.6 MCMD on December 31. AAG will continue to invest in technical improvements in Mabi by implementing both Pad Drilled Wells ("PDW") and SLH wells.

WELL COUNT FOR PANZHUANG AND MABI

In 2016Q4, 5 wells came online into production in Panzhuang after dewatering or other work over activities. Panzhuang has a total of 97 wells in production in 2016Q4 compared to 63 in 2015Q4. Of these 97 wells, there are 14 PDW, 49 Multi-Lateral Wells ("MLD"), and 34 SLH wells. In Mabi, there are 121 wells at different stages of pilot production. More information will be given in AAG's Annual Report for the year ended December 31, 2016 which is currently expected to be released in March 2017.

DRILLING AND OPERATION

Panzhuang: In 2016Q4, AAG spudded a total of 13 wells in Panzhuang, comprising 11 SLH wells and 2 PDW wells. 5 wells were completed and put onto production in 2016Q4. In 2016, we have drilled and completed 30 wells out of a total of 35 in our work plan. A heavy rainy season and some logistic challenges contributed to the slowdown in drilling activity during the six months ended December 31, 2016. 5 rigs were contracted during 2016, and we plan to deploy the same number of rigs in 2017. Apart from the slowdown in the drilling plan, we were on schedule with the 2016 work plan. In 2016, we fractured 7 PDWs and added 10 surface compressors and 16.4km of trunk lines. We are in the process of upgrading our Central Gathering Station and are about 65% complete constructing the new 35KV transformer station, which will add further electrical capacity for surface compression in 2017.

Mabi: AAG drilled 2 pilot production wells in 2016Q4. The frack work plan on previously drilled vertical wells was completed this year, with 31 wells fracked in 2016. AAG is further developing its proprietary drilling technical knowledge for Seam 3 and Seam 15 in Mabi. A combination of drilling SLH and PDW wells, combined with well casing and fracking techniques, are yielding positive results, and Mabi production has increased substantially as a result of this success.

EXPLORATION PROGRAM

Exploration is focused on our Mabi concession and is divided into two programs: (i) the pilot test production program in Northern Mabi and (ii) the Mabi reserve update program across the Northern and Southern areas. In total, there were 2 exploration wells drilled in Mabi in 2016Q4.

For pilot test production, in total, there are 3 pads with 24 PDWs and 2 SLH wells under test production in the North-Eastern area of Mabi. The 2 SLH wells were completed this year targeting seam 3 and 15, respectively. SLH well MB10-A8-24L-08 in seam 15 has a total horizontal lateral of over one thousand meters, one of the longest in China. In 2016, pilot test production shows promising results with MB10-A8-24S pad (7 PDW) at stable production. In 2016, production for MB10-A8-24S was 5.91 MMCM with daily production of 16.6 MCMD on December 31. The two remaining pads with the remaining 17 PDWs, were fractured in February and May 2016, and are currently dewatering.

In 2016Q4, 2 reserve wells were drilled with 2,070m of footage, and 13 seams were cored and tested. A further 8 (total 22 in 2016) existing reserve wells have been fracked or stimulated. A total of 35 wells are contributing to the reserve upgrade program (targeting coal seams 2, 3, 9, and 15) in 2016 which will contribute to both the national reserve certification by MOLAR and the NSAI 2P reserve upgrade for Mabi. Further guidance and reserve updates will be released in AAG's 2016 annual report in March of 2017.

MARKETING AND SALES

Our sales utilization rate in Panzhuang remained high at 98% over the quarter and throughout 2016. This is a result of continued development in surface infrastructure and the strong ongoing market demand for gas in the region, particularly in the southern Shanxi area and northern Henan area where we continue to sell much of our output.

China's total gas demand was up 8% year-over-year to 186 billion cubic meters ("bcm") for the period from January to November 2016, while China gas production was only 123bcm, an increase of just 2% according to SIA Energy. This resulted in a 22% increase in LNG imports to 63 bcm, compared to the same period last year. AAG continues to be in a very strong position as the leading independent producer of coal bed methane in China.

We see the August, 2016 policy issued by the National Development and Reform Commission of China ("NDRC") to regulate provincial and local gas pipeline pricing as broadly positive, driven by the need to improve third party access to downstream pipelines and to stimulate the local gas market in China.

HEALTH, SAFETY, ENVIRONMENT (HSE)

AAG is very proud of our enviable safety record over the quarter. The employee total recordable injury rate, lost time injury rate, and preventable motor vehicle accident rate were all zero in 2016Q4. The contractor safety injury rates were both zero as well for the quarter.

AAG won the 2016 Green Leadership Prize from the Asia Responsible Entrepreneurship Awards in Singapore. AAG is honored to receive such a prestigious award, which demonstrates AAG's dedication to supply clean and efficient energy in a socially and environmentally responsible way.

PARTNER RELATIONS AND APPROVALS

Mabi ODP: All ODP Phase I associated sub-approvals have been secured, including land use, social stability assessment and environment impact assessment. The ODP Phase I report has been revised based on the latest progress made in the Mabi pilot program and improving market conditions. The ODP Phase I report is under final review by China National Petroleum Corporation ("CNPC") and will be submitted to the NDRC afterwards. Based on prior experience, once submission is made to the NDRC, ODP approval is expected to be obtained within 6 to 12 months.

COST UPDATE (AS OF DECEMBER 31, 2016)

Out of the planned capital expenditure ("Capex") budget of RMB 832 million ("MM") for 2016, AAG has incurred cash expenditures of RMB123 MM in total Capex in 2016Q4. By December 31, 2016, AAG has incurred total cash expenditures of RMB569 MM in Capex activities. The main cause of the difference between the year-end Capex and the budget is the delay in the drilling plan and the savings in drilling costs. Costs per well continue to fall for Panzhuang. The average drilling cost for 1 SLH well in Panzhuang was reduced further to RMB3.5 MM in 2016Q4 down from RMB3.9 MM in 2016Q3, and these wells were drilled in just 22 days on average in 2016Q4. 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.

2016Q4 update	Q4 2016	Q3 2016	1H2016	2016	2015
Panzhuang (PZ) gross production (MMCM)	131.33	134.34	240.46	506.13	488.29
Total PZ producing wells*	97	92	78	97	63
PZ MLD	49	49	49	49	49
PZ SLH	34	29	20	34	7
PZ PDW	14	14	9	14	7
PZ daily production (MMCMD)	1.43	1.46	1.32	1.38	1.34
PZ average daily production per well (MCMD)	14.72	15.87	16.94	14.26	21.23
PZ wells fracked	<u>0</u>	<u>5</u>	<u>2</u>	<u>7</u>	<u>13</u>
Mabi (MB) gross production (MMCM)	12.85	10.77	11.33	34.95	15.93
Total Mabi producing wells*	121	126	121	121	80
MB MLD	2	2	3	2	4
MB SLH	12	14	10	12	7
MB PDW	107	110	108	107	69
MB average daily production (MCMD)	139.7	117.04	62.3	95.55	43.65
MB average daily production per well (MCMD)	1.15	0.93	0.51	0.79	0.55
MB wells fracked	<u>4</u>	<u>4</u>	<u>23</u>	<u>31</u>	<u>34</u>

* well count is calculated from pumping start date

TERMINATION OF DEFINITIVE BID FOR PROPOSED ACQUISITION

AAG refers to the announcement dated August 30, 2016 in relation to the acquisition of certain oil and gas assets outside of China (“Oil and Gas Assets”) from an international oil and gas company (“Seller”). AAG has been notified on January 25, 2017 that the Seller has decided to retain and not sell the Oil and Gas Assets at this time. As such, the proposed acquisition will not proceed.

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 2016 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.

On behalf of the Board
AAG Energy Holdings Limited
Stephen Xiangdong Zou
Chairman

Hong Kong, January 26, 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 Bo Bai; and the independent non-executive directors are Yaowen Wu, Robert Ralph Parks, Fredrick J. Barrett and Stephen Cheuk Kin Law.