

The Insolvency Act 1986

Administrator's progress report

Name of Company Afren Nigeria Holdings Limited	Company number 06033276
In the High Court of Justice Chancery Division Companies Court	Court case number 9172 of 2015

We

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administrators of the above company attach a progress report for the period

From

30 November 2015

To

29 May 2016

Signed


Joint Administrator

Dated

27/6/15

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form

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Administrators' Progress Report for the period 30 November 2015 to 29 May 2016

Afren Nigeria Holdings Limited
In Administration

27 June 2016

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1 Why this report has been prepared

- 1.1 As you will be aware, Simon Appell, Daniel Imison and Catherine Williamson (the **Administrators**) were appointed as administrators of Afren Nigeria Holdings Limited – in Administration (the **Company**) on 30 November 2015.
- 1.2 In accordance with UK insolvency legislation, an administrator is required to provide a progress report covering the period of six months commencing on the date on which the company entered into administration and every subsequent period of six months. This progress report covers the period 30 November 2015 to 29 May 2016 (the **Period**), and should be read in conjunction with the Administrators' Statement of Proposals dated 7 December 2015 (the **Proposals**) and the Administrators' Disclosure Report pursuant to Statement of Insolvency Practice 16 (SIP16) – pre-packaged sale of business or assets, dated 7 December 2015.
- 1.3 This report has been prepared in accordance with rule 2.47 of the Insolvency Rules 1986.
- 1.4 The purpose of this report is to provide statutory and financial information about the Company and to provide an update on the progress of the Administration, including details of assets realised during the Period, details regarding the Administrators' fees and the expected outcome for each class of creditor.
- 1.5 As a reminder an administrator of a company must perform their functions with a view to achieving one of the following statutory objectives:
- Objective 1 rescuing the company as a going concern,
 - Objective 2. achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration), or
 - Objective 3 realising property in order to make a distribution to one or more secured or preferential creditors.
- 1.6 In this case the Administrators are pursuing the third statutory objective. Further details on the actions taken to achieve that objective can be found in section 3 of this report.
- 1.7 Details of the Administrators' fees and disbursements incurred are detailed at Appendices C to E.
- 1.8 More information relating to the Administration process, Administrators' fees and creditors' rights can be found on AlixPartners' creditor portal (www.alixpartnersinfoportal.com). Log-in details to access this information can be found within the covering letter you have received.
- 1.9 If you require a hard copy of this report or have any queries in relation to its contents, or the Administration generally, please contact Paul Butterfield on 0161 838 4539, by email to creditorreports@alixpartners.com, or write to AlixPartners, The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB.

2 Summary of information for creditors

The Company is a wholly owned subsidiary of Afren Plc – in Administration (Afren Plc), formerly a publicly quoted FTSE 250 entity which, via a number of other trading and subsidiary holding companies (together the Group), operated as an independent upstream oil and gas exploration business

The Company does not trade. However, it acts as an intermediary funding company for the Group, has granted security over a number of its assets and is a guarantor of certain of the Group's liabilities and financial obligations, as detailed below.

There have been no distributions to creditors from the Administration to date. However, certain creditors have received repayments against their debts following asset realisations elsewhere within the Group. The repayments made to date are detailed below for information purposes.

Summary of creditor position

\$ million Description	Estimated debt at the date of this progress report (a)	Repayment to date	Expected outcome
Secured creditors			
Wilmington Trust (London) Limited (Wilmington) as Note Security Trustee for the private placement notes (the Bridge Securities)	211	61	Uncertain
Senior Secured Loan Notes 2016 (the 2016 Bonds) (b)	247	70	Uncertain
Senior Secured Loan Notes 2019 (the 2019 Bonds) (b)	244	67	Uncertain
Senior Secured Loan Notes 2020 (the 2020 Bonds) (b)	351	92	Uncertain
Total secured creditors	1,053	29	
Preferential creditors	Nil	-	
Unsecured creditors	654	-	0.9
Total liabilities	1,707		

(a) Principal amount of the debts as at the date of this progress report, excluding accrued interest and (in the case of the Bridge Securities only) the applicable 'make whole' payment. The Company has guaranteed indebtedness and has provided certain security.

(b) together the Existing Bonds. The Company has guaranteed indebtedness and has provided certain security.

Summary of third party security

\$ million Description	Estimated third party liabilities (a)
Parties with third party security (b)	
BNP Paribas (as Security Trustee on behalf of the lenders (the Ebok Lenders) under the Ebok Facility (as defined in section 2.6))	300
Access Bank Plc (Access Bank) as lender under the Okwok/OML 113 Facility (as defined in section 2.8)	0.5 (c)
Total	300.5

(a) Principal amount of these third party debts as at the date of this progress report excluding accrued interest.

(b) The Company has not guaranteed indebtedness, but has pledged security in support of third party liabilities.

(c) Following partial payment.

Notes:

Throughout this report, a reference to “\$” is to United States Dollars and a reference to “£” is to British Pounds Sterling

The estimated debts have been taken from the directors’ Statement of Affairs (**SofA**) A full analysis of the security granted by the Company was provided in the Proposals

Due to the uncertainty of the overall recovery prospects in the Administration and elsewhere within the Group, the exact level of return to creditors of the Company cannot be determined at this stage. However, the Administrators believe that the Company has insufficient property to enable a dividend to be paid to the unsecured creditors, except by virtue of the Unsecured Creditors’ Fund (as defined in section 5.16 of this report). Further details on this matter can be found in section 5 of this report.

Secured creditors

Bridge Securities

- 2.1 At the date of the Administrators’ appointment, the principal amount outstanding in respect of the Bridge Securities was approximately \$217 million. The Company has granted first ranking fixed and floating charges over substantially all of its assets (excluding the shares held by it in Afren Exploration & Petroleum Nigeria Alpha Limited (**AEPNA**)) in favour of Wilmington.
- 2.2 Following the sale of the Okoro asset (defined and discussed further in sections 3.18 to 3.21), Wilmington and the holders of the Existing Bonds (the **Existing Bondholders**) received a distribution. Wilmington’s share of the distribution totalled \$6.1 million. Given the security held by Wilmington (on behalf of the holders of the Bridge Securities), there will be no further distributions out of the Company’s assets to secured creditors of the Company other than Wilmington until all amounts owing in respect of the Bridge Securities have been repaid in full. The Administrators do not anticipate that the Bridge Securities will be repaid in full.

Senior Secured Loan Notes 2016, 2019 and 2020

- 2.3 At the date of the Administrators’ appointment, the principal amount outstanding in respect of the 2016 Bonds was approximately \$247 million, in respect of the 2018 Bonds was approximately \$244 million and in respect of the 2020 Bonds was approximately \$351 million.
- 2.4 The Company has guaranteed the obligations of Afren Plc under the 2016 Bonds, the 2019 Bonds and the 2020 Bonds and granted BNP Paribas (on behalf of the Existing Bondholders) security over the shares which it owns in Afren Resources Limited, a Nigerian incorporated company, (**ARL** and the **ARL Shares**) as security for its obligations under each series of Existing Bonds.
- 2.5 The Existing Bondholders have received a share of the proceeds from the sale of the Okoro asset, ranking pari passu with the holders of the Bridge Securities, in accordance with the terms of the Pari Passu Intercreditor Agreement dated 9 December 2013.

Holders of third party security

Ebok Facility

- 2.6 At the date of the Administrators’ appointment, **ARL’s** \$300 million facility with the Ebok Lenders (the **Ebok Facility**) was fully drawn. The Company provided third party security to BNP Paribas, on behalf of the Ebok Lenders, in respect of the obligations of the obligors under the Ebok Facility. The Company granted BNP Paribas security over the **ARL Shares**.

- 2 7 The return to the Ebok lenders remains uncertain. Details of the steps taken to date with regard to the Ebok asset are provided at section 3

Okwok Facility

- 2 8 The Company provided third party security in respect of the obligations of the obligors under AEPNA's \$50 million facility with Access Bank (the **Okwok/OML 113 Facility**). The Company granted fixed security over the shares in AEPNA owned by it to secure the obligations of AEPNA under the Okwok/OML 113 Facility
- 2 9 Following enforcement by Access Bank of the security held for the debt owing under the Okwok/OML 113 Facility, the outstanding amount owing to Access Bank is approximately \$0.5 million, detailed further in section 5.13

Intercreditor agreements, Security and Priority

- 2 10 Three intercreditor agreements regulate the priority of the Company's guarantee obligations in respect of the Existing Bonds and the Bridge Securities, and the priority of the security provided by the Company in respect of the Existing Bonds, the Ebok Facility and the Bridge Securities. In summary:
- the Existing Notes/Ebok Intercreditor Agreement dated 3 February 2011: this provides, among other things, that the security for the Existing Bonds over the ARL Shares is subordinated to the security for the Ebok Facility over the ARL Shares,
 - the Additional Ebok Intercreditor Agreement dated 30 April 2015: this provides, among other things, that the Company's guarantee obligations in respect of the Existing Bonds and the security for the Existing Bonds over the ARL Shares is subordinated to the Company's guarantee obligations in respect of the Bridge Securities, and the security for the Bridge Securities over the ARL Shares, and
 - the Bridge Securities/Ebok Intercreditor Agreement dated 30 April 2015: this provides, among other things that with respect to the security over the ARL Shares the Bridge Securities rank ahead of the Ebok Facility in priority of security
- 2 11 As Access Bank is not party to any of the intercreditor agreements, the Okwok/OML 113 Facility is not subject to any intercreditor arrangements
- 2 12 The Company's secured creditors have the benefit of various security instruments elsewhere in the Group, as is normal in groups of this size and complexity. Whilst secured realisations achieved with respect to other group entities may not flow back to the Company, they may, however, ultimately reduce the liabilities of the Company

Preferential creditors

- 2.13 The Company did not employ any staff and therefore there are not expected to be any preferential creditor claims.

Unsecured creditors

- 2 14 The Administrators are required to create a fund to be set aside for the benefit of unsecured creditors. At present, the Company's net property is expected to be at least £15 million, and the Administrators will therefore set aside the maximum fund of £0.6 million

- 2.15 In respect of unsecured creditors, UK insolvency legislation stipulates that creditors of the same class should be treated equally. Hence the funds available for distribution are split on a pro-rata basis amongst all creditors of each class, regardless of the size of their claims. Further details of the expected outcome to each class of creditor is provided at section 5.

3 Progress of the Administration

- 3.1 In addition to their statutory objective, the Administrators have duties imposed by insolvency and other legislation and their regulating professional bodies. The Administrators have set out information in respect of the progress of these duties in addition to that of the realisation of assets and distribution of available funds. The detail provided is intended to provide users of this report with information to allow them to understand how the Administrators' fees and expenses as set out in Appendices C and D have been incurred, as well as the sensitivities that might be applicable to the Administrators' anticipated fees and expenses over the remainder of the Administration.

Asset realisations

Shares in AIO&GNL

- 3.2 As detailed in the Proposals and SIP16 Report, the Administrators concluded a 'pre-pack' transaction for the sale of this asset on 30 November 2015. The transaction involved a sale of the Company's shareholding in, and intercompany balance due from, Afren Investments Oil & Gas Nigeria Limited (AIO&GNL) as well as that of Afren Plc.
- 3.3 The total consideration of \$13 million is payable in two instalments. The initial payment in the amount of \$12 million was paid upon signing of the sale and purchase agreement (the SPA). The second payment in the amount of \$1 million will be paid upon the first to occur of either obtaining consent to the transfer of the shares from the Nigerian Minister in charge of petroleum resources, or on a longstop date two years after the date of the SPA. The Administrators are awaiting the ministerial consent and an initial request to the Department of Petroleum Resources (DPR) has been submitted in conjunction with the purchaser and its advisers.
- 3.4 The Company's share of the initial consideration, namely \$6.1 million, was received on 11 December 2015. Full details of the sale can be found in the SIP16 Report.

Other assets held by subsidiaries

- 3.5 The Company's principal assets are its shareholdings in its subsidiary companies, which in turn hold assets through Nigerian joint-venture subsidiary companies. The Group's three core assets in Nigeria are its interests in the Ebok, Okoro-Setu and OML 26 fields. In addition, the Group is engaged in exploration, appraisal and development at other sites in the country.
- 3.6 In addition to its shareholdings, the Company has intercompany receivable balances due from certain of its subsidiary entities, which own the various Group assets.

Ebok

- 3.7 Ebok is a producing oil field located in offshore Nigeria. The Company's interest in the field comprises its shareholding in ARL which holds a 50% participating interest with its joint venture partner Oriental Energy Resources Limited (Oriental).

Operational overview

- 3.8 Operational responsibility for the Ebok field was transferred to Oriental under the terms of a transition plan agreed prior to the Administration. Although it is not currently receiving any revenue, ARL retains a legal interest in the asset.

Ebok sales process

- 3.9 The Administrators and their financial advisors PJT Partners (UK) Limited (**PJT**) have held discussions with a number of interested parties for the sale of the Company's interest in the Ebok field. Despite PJT progressing a number of offers, which included commercial discussions with Oriental, no formal offers for the asset were received as a result of the sales process. Feedback from interested parties suggested that complexities surrounding Joint Venture disputes and the significant capital injection required to address the substantial creditor balances of ARL were the principal reasons as to why no formal offer was received for the Ebok asset.
- 3.10 PJT remain in discussions with certain interested parties who continue to appraise the situation, however it is uncertain if a transaction can be agreed.

Directors

- 3.11 All directors of ARL resigned shortly after Afren Plc entered administration. The Company, as shareholder of ARL, has passed a resolution to appoint new directors who are now in office. The directors are working closely with the Administrators in order to maximise value for creditors via asset and other potential realisations.

Disputes

- 3.12 On 12 November 2015, a creditor filed a winding up petition against ARL in respect of unpaid invoices in the amount of \$508,157. A number of hearings in respect of the winding up petition have been scheduled since November 2015 but each has been adjourned by the Court in Lagos, Nigeria. The next hearing is scheduled for 29 June 2016.
- 3.13 Disputes exist between ARL and Oriental under the Joint Operating Agreement (JOA). Oriental contends that ARL is in breach of its obligations to pay costs, and on that basis has purported both to terminate the JOA, Farm-In Agreement and Technical Services Agreement and to appropriate certain liftings and the proceeds of sale of certain liftings. ARL disputes that such purported terminations were effective and contends that Oriental's appropriations were wrongful.
- 3.14 On 5 November 2015, Oriental commenced further proceedings in the Nigerian Federal High Court against Afren Plc, ARL, BNP Paribas, UMB Bank (later substituted for Deutsche Bank) and Wilmington relating to the proceeds received by Wilmington as security agent pursuant to enforcing its security interest. Oriental claims that such enforcement is inconsistent with the terms of the JOA. ARL applied to the Nigerian court for a stay of the litigation proceedings on the grounds that the dispute under the JOA should be resolved by arbitration. The Nigerian court rejected ARL's application. ARL is currently appealing this decision and the initial litigation proceedings are stayed pending the outcome of the appeal.
- 3.15 On 5 January 2016, Oriental commenced a further set of proceedings in the Nigerian Federal High Court against ARL, BNP Paribas and Wilmington in respect of Wilmington's security enforcement over funds held by BNP in the name of ARL. The next hearing is scheduled for 27 September 2016.
- 3.16 On 28 December 2015, BNP Paribas commenced summary proceedings in France against ARL, Wilmington and Oriental requesting an order appointing an escrow agent responsible for holding the balance of the Abandex Account held by BNP. On 23 March 2016, the French Court ordered that the funds be placed into escrow.
- 3.17 The above disputes are commercially sensitive and therefore additional information cannot be disclosed at present. A further update will be provided in the Administrators' next progress report.

Okoro-Setu

- 3 18 The Group owned an economic interest of 50% of the Okoro field through a subsidiary, Afren Energy Resources Limited (AERL), a Nigerian incorporated entity, and operated the fields together with the local partner, Amni International Petroleum Development Company Limited (Amni)
- 3 19 Amni's consent was required to any sale of AERL's interest in the field to a third party. Amni was unwilling to provide the required consent and instead purchased AERL's economic interest. On 2 October 2015, UMB Bank N A, the collateral agent, enforced its security over the asset and gross realisations totalling \$31 million were received by the collateral agent from Amni.
- 3 20 The relevant portion of the net realisations after costs have been distributed by the collateral agent to the Existing Bondholders, in part satisfaction of their secured debt and the relevant portions of the net realisations were paid to the holders of the Bridge Securities
- 3 21 The Okoro asset represented the principal asset of AERL, the shares in which were, in turn, the principal asset of Afren Okoro Limited (AOL). It is therefore not expected that there will be any realisations available to the Company from the debt due from AOL, however the Group's and the Company's secured liabilities have been markedly reduced as a result of the sale

OML 26

- 3 22 The Company is a shareholder of First Hydrocarbon Nigeria Company Limited (FHN), which in turn owns a 45% working interest in each of the five prospects within the OML 26 asset, a block with two producing oil fields known as Ogini and Isoko, located onshore in Delta State, Nigeria, via FHN 26 Limited (FHN26)
- 3 23 The Company's accounts show an intercompany loan receivable due from FHN26 of \$133.2 million
- 3 24 In conjunction with PJT, the administrators of Afren Plc launched a sales process on 10 September 2015. Discussions with a number of parties are at an advanced stage. However, the Administrators are unable to disclose details until an agreement has been entered into
- 3 25 Any sale will be subject to successfully obtaining government and regulatory approval to the transfer of the licence required to own the asset, (or indirect transfer of ownership of the license by way of share sale) and the Administrators will work with the purchaser to secure this

Okwok, OML115 and OML113

Okwok

- 3 26 As detailed in the Proposals, the Company is a shareholder in Afren Exploration & Production Nigeria Alpha Limited (AEPNA) which owns the Group's interest in Okwok, an undeveloped oil field close to the Ebok field
- 3.27 The Group had granted security over its interest in the Okwok field to Access Bank in consideration for the Okwok/OML 113 Facility. Following Access Bank's enforcement of its security over AEPNA's 28% interest in the Okwok field, it subsequently assigned the interest to Aries Gasoil Development Company Limited, for consideration totalling \$19 million
- 3.28 It should be noted that the assignment is subject to the pre-emptive rights of the parties to the JOA governing the field. Accordingly, the funds are being held on escrow pending the expiration of the notice to the parties to the JOA

OML 115

- 3 29 The Group's interest in the OML 115 licence is held by Afren Exploration & Production Nigeria Beta Limited. The OML 115 licence pertains to an offshore oil field located on the eastern Niger Delta and the Group shares its interest in the site with Oriental.
- 3 30 The OML 115 licence was included in the sales process. However, no expressions of interest for the licence were received from any external purchasers or Oriental. The Administrators have considered a range of options for this asset and remain open to offers, there is, however, a risk that the licence will be revoked by the DPR.

OML 113

- 3 31 The Group's interest in OML 113 was held via FHN 113 Limited (FHN 113). FHN 113 has granted Access Bank security over the asset in connection with the Okwok/OML 113 Facility. As it did in relation to its enforcement action in respect of Okwok, Access Bank notified the Administrators of its intention to assign its interest in OML 113. Accordingly, Access Bank assigned its 9% interest of FHN 113 in OML 113 to Yinka Folawiyi Petroleum Limited. The Administrators understand Access Bank contracted to sell the asset for \$35 million.
- 3 32 Following the enforcement, the directors of FHN 113 made an application for the winding up of FHN 113 in the Nigerian Court on 21 December 2015. The hearing of the application was held on 26 January 2016 and at the hearing the Nigerian Court directed for the winding up petition to be advertised in the national press, 15 days ahead of the next hearing date which was scheduled for 16 February 2016. The Administrators understand that the Nigerian Court further adjourned the hearing of the application to 19 April 2016, which was again adjourned until 21 June 2016. An update on the winding up hearing of FHN 113 will be provided in the Administrators' next progress report.

Other assets – intercompany debtors

- 3 33 The Administrators continue to monitor the sales of other assets across the Group and, where possible, seek to recover funds into the Administration via the intercompany debt position for the benefit of the Company's creditors.
- 3 34 Sales have been agreed in respect of a number of the non-core subsidiaries of Afren Plc, none of which are subsidiaries of the Company, which should provide an eventual realisation to creditors of the Company but, as is customary, government and regulatory approval is required for all licence assignments.
- 3 35 A summary of each of the sales agreed is included below. All sales are at an advanced stage and the Administrators continue to work with the respective purchasers to obtain the necessary government approvals.
- 3 36 Further details of each sale will be provided as and when each sale formally completes.

South Africa

- 3.37 On 16 December 2015, Afren Mauritius Limited (AML) signed an SPA to sell the shares in Main Street 840 Proprietary Limited, the holder of a 25% interest in Block 2B, to certain subsidiaries of Africa Energy Corp (AEC). In addition, the Company and Afren Plc have agreed to sell their intercompany debts for the sum of \$122,000 and \$878,000 respectively, which will generate realisations to the benefit of the Company's creditors. Completion remains subject to the relevant government and other regulatory approvals and the Administrators continue to work with AEC to obtain these. The Administrators anticipate that completion will occur in the coming months.

Kenya/Tanzania

- 3 38 On 30 October 2015 three sale and purchase agreements were signed for the sale of Block 1 and Block L17/L18 located in Kenya, (each entered into by East African Exploration (Kenya) Limited), and the Tanga Block located in Tanzania (entered into by Afren Tanzania), to Octant Energy Corporation (**Octant**). Completion remains subject to the relevant government and other regulatory approvals

Seychelles

- 3 39 An SPA for the sale of Area A & B located in the Seychelles to Sub Saharan Resources Limited (**SSR**) was signed on 16 February 2016 by East African Exploration (Seychelles) Limited. Completion remains subject to the relevant government and other regulatory approvals and the administrators of Afren Plc continue to work with SSR to obtain these approvals

Côte d'Ivoire

- 3 40 Afren CI One Corporation entered into an SPA for the sale of blocks CI-523 and CI-525 located in Côte D'Ivoire on 2 October 2015. The transaction completed on 29 March 2016 with transaction proceeds of \$0.5 million received

Statutory matters

- 3 41 In addition to their duties relating to realising and distributing the assets of the Company, the Administrators must comply with certain statutory compliance matters in accordance with the Insolvency Act 1986. These include notifying the stakeholders of the appointment, preparing bi-annual reports to creditors advising of the progress of the Administration. The Administrators are responsible for liaising with HM Revenue and Customs to determine the final position in respect of corporation tax and other taxes that may be owed by or to the Company, and for filing tax returns for the duration of the Administration
- 3 42 In order to ensure the matters of the Administration are being progressed sufficiently, the Administrators have a duty to conduct periodic case reviews and complete case checklists. In addition, the Administrators' treasury function will also comply with cash accounting requirements including raising payments, processing journal vouchers and posting receipts, preparing bank reconciliations and statutory returns
- 3 43 The time taken for statutory tasks is largely fixed, insofar as the cost of preparing a report to creditors or filing an annual return is similar for most cases, except where cases are very large or complex, such as this case. The Group has a complex structure, numerous stakeholders and a significant number of creditors. All these elements increase the complexity of the statutory tasks. Where the costs of statutory compliance and reporting to creditors exceeds the initial estimate, it will generally be because the duration of the case has been longer than expected, for example, due to protracted realisations of assets. In such circumstances, it is necessary to prepare additional progress reports and issue them to creditors

Creditors (claims and correspondence)

- 3 44 Details of the estimated outcome for creditors can be found in sections 2 and 5 of this report
- 3 45 The SofA listed five individual unsecured creditors. However, to date no claims have been received

4 Investigations and litigation

- 4.1** The Administrators have investigated the conduct of the directors and the transactions entered into by the Company prior to its insolvency, as required by the Company Directors Disqualification Act 1986, and Statement of Insolvency Practice 2 – Investigations by Office Holders in Administrations and Insolvent Liquidations
- 4.2** A detailed report has been submitted to the Department for Business, Innovation and Skills (BIS) which summarises the findings of the investigation. The contents of the report are confidential. The Administrators will continue to liaise with BIS where required and may have an ongoing role in providing documents and information, if requested
- 4.3** The creditors are aware that a number of issues at the Group had been subject to independent enquiries prior to the appointment of the Administrators. As one of the Company's directors was also a director of Afren Plc, the investigations and the findings at Afren Plc are relevant to the Company and should be considered within the wider context of the Group
- 4.4** The Administrators have considered which areas of investigation have the potential to result in recoveries for the benefit of creditors. Detailed legal advice has been sought on a range of potential claims, both on the merits of bringing legal action and the likelihood of a successful recovery. The Administrators continue to assess whether these potential claims should be progressed
- 4.5** This work is ongoing and further updates will be provided in the Administrators' next progress report.

5 Estimated outcome for creditors

Secured creditors

Holders of the Bridge Securities

- 5 1 Wilmington was appointed as Security Trustee for holders of the Bridge Securities pursuant to a security trust deed dated 30 April 2015. The Company also granted fixed and floating charges over substantially all of its property, assets and undertakings, (excluding the shares which it holds in AEPNA to Wilmington on that date), pursuant to an English law debenture, an English law charge over intercompany debts and a Nigerian law share charge over the ARL Shares
- 5 2 As at the date of appointment, the amount due to the holders of the Bridge Securities was approximately \$217 million, plus accrued interest and applicable make-whole payments, although some security granted by other Obligor in favour of Wilmington has been enforced and will reduce this balance upon application of the proceeds of enforcement towards repayment of the Bridge Securities
- 5 3 It remains uncertain at this stage whether there will be sufficient realisations from the Company's assets over which security is granted to Wilmington. It is, however, unlikely that realisations will be sufficient to repay holders of the Bridge Securities in full.

Senior Secured Notes

- 5 4 Since 2011, Afren Plc has issued three sets of bonds (the 2016 Bonds, the 2019 Bonds and the 2020 Bonds) and the Company has guaranteed Afren Plc's obligations under those Existing Bonds. As at the date of the Administrators' appointment, approximately \$247 million was outstanding in respect of the 2016 Bonds, \$244 million in respect of the 2019 Notes and \$351 million in respect of the 2020 Bonds. The Existing Bonds are listed on the Luxembourg Stock Exchange and are guaranteed on a subordinated basis by ARL and on a senior basis by the Company and certain of the Company's other subsidiary companies
- 5 5 As detailed in section 2, the Existing Bondholders have received a share of the proceeds from the sale of the Okoro asset
- 5 6 As detailed in section 2 4, the Existing Bondholders benefit from the security over the ARL Shares granted by the Company. In addition, ARL has granted security over all of its assets to BNP Paribas (as security agent for the Existing Bonds) on a subordinated basis as security for the Existing Bonds. However, the Existing Bondholders will not receive any proceeds from any disposals of these assets until the holders of the Bridge Securities and the Ebok Lenders have been repaid in full
- 5 7 It is unlikely that proceeds from the realisation of the remaining assets over which the Company or the Company's subsidiaries have granted security will be sufficient to enable any further distributions to be paid to the Existing Bondholders in respect of such realisations

Holders of third party security

Ebok Facility

- 5 8 BNP Paribas (as Security Trustee on behalf of the Ebok Lenders) benefits from third party security over the ARL Shares

- 5 9 At the date of the Administrators' appointment, the principal amount of the debt due under the Ebok Facility was approximately \$300 million
- 5 10 The return to the Ebok Lenders remains uncertain. Given the security held by Wilmington, there will be no distributions out of the Company's assets to the Ebok Lenders until all amounts owing in respect of the Bridge Securities have been repaid in full.
- 5 11 The recourse of BNP Paribas (as Security Trustee on behalf of the Ebok Lenders) against the Company is limited to the proceeds from the realisation of the third party security granted to it by the Company

Okwok Facility

- 5 12 Access Bank, as lender under the Okwok/OML 113 Facility, benefits from third party security over the shares in AEPNA pursuant to a Nigerian law charge dated 3 March 2015. The security granted by the Company in connection with the Okwok/OML 113 Facility is limited recourse. The Company has no liability to Access Bank under the Okwok/OML 113 Facility if proceeds from the disposal of assets over which the Company has granted security are not sufficient to repay Access Bank in full.
- 5 13 Following application of the proceeds of the disposals of AEPNA's interest in the Okwok field, over which AEPNA had granted security to Access Bank and of FHN 113's interest in OML 113, over which OML 113 had granted security to Access Bank, approximately \$0.5 million is outstanding in respect of the Okwok/OML 113 Facility

Other security

- 5 14 The Company's charges register at Companies House contains an outstanding charge relating to indebtedness which the Administrators understand to have been repaid in full. In May 2007, the Company granted security to BNP Paribas in respect of a facility agreement between Afren Okoro Limited as borrower and the Company as guarantor. The facility was repaid in February 2011

Preferential creditors

- 5 15 There are not anticipated to be any preferential creditor claims

Unsecured creditors

- 5 16 Where there is a floating charge which was created on or after 15 September 2003, the Administrators are required to create a fund from the Company's net property available for the benefit of unsecured creditors (**Unsecured Creditors' Fund**), commonly known as the 'Prescribed Part'
- 5 17 The Company's net property is expected to be sufficient to enable an Unsecured Creditors' Fund of the statutory maximum of £0.6 million. The likely level of return to unsecured creditors can be found within section 2. Creditors are invited to submit details of their claims to AlixPartners' Manchester Office, situated at The Zenith Building, 26 Spring Gardens, Manchester M2 1AB, using the Statement of Claim form that can be downloaded from AlixPartners' creditor portal. Alternatively, claims can be submitted electronically to afren@alixpartners.com
- 5 18 The Administrators are not able to acknowledge receipt of individual claims, however, claims received will be held on file until the Administrators are in a position to make a distribution

6 What happens next

Creditors' rights

- 6.1 Within 21 days of the receipt of this report, (i) a secured creditor, or (ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors (including the creditor in question) or (iii) any unsecured creditor with the permission of the court upon an application made within that period of 21 days may request in writing that the Administrators provide further information about their fees or expenses (other than pre-administration costs) which have been itemised in this progress report
- 6.2 Any secured creditor, or an unsecured creditor with (i) the concurrence of at least 10% in value of the unsecured creditors (including that creditor) or (ii) the permission of the court may, within eight weeks of receipt of this report, make an application to court on the grounds that the basis fixed for the Administrators' fees is inappropriate, or that the fees charged or the expenses incurred by the Administrators during the period of this report are excessive

Extension of the Administration

- 6.3 It will not be possible to conclude the outstanding matters prior to the expiry of the Administration. As detailed in section 3, a number of the Group's assets are yet to be realised. In addition, a number of the asset realisations completed to date are subject to an element of deferred consideration, which is unlikely to be received before the current expiry date of 29 November 2016. The payments are generally subject to the purchaser obtaining governmental consents to the sale, which are likely to take an extended period of time to obtain
- 6.4 Accordingly, the Administrators intend to apply to court to seek permission to extend the term of the Administration by 24 months to 29 November 2018
- 6.5 If the court approves the Administrators' application, a further report will be circulated to all creditors within one month of the next six month period ended 29 November 2016, or sooner in the unlikely event that the Administration has been finalised before that date

Exit routes

- 6.6 Details of the proposed exit routes are provided at Appendix F.

Next report

- 6.7 The Administrators are required to provide a progress report within one month of the end of the next six months of the Administration, or earlier if the Administration has been finalised

For and on behalf of
Afren Nigeria Holdings Limited



Catherine Williamson
Administrator

Encs

Appendix A. Statutory information

Company information

Company name	Afren Nigeria Holdings Limited
Registered number	06033276
Registered office	The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB
Former registered office	Kinnaird House, 1 Pall Mall East, London, SW1Y 5AU
Court details	High Court of Justice, Chancery Division, Companies Court
Court reference	CR-2015-009172

Appointor's information

Name	Address
Afren Nigeria Holdings Limited	The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB

Administrators' information

Name	Address	IP number	Name of authorising body
Simon Appell	AlixPartners, 6 New Street Square, London, EC4A 3BF	009305	Insolvency Practitioners Association
Daniel Imison	AlixPartners, 6 New Street Square, London, EC4A 3BF	013434	Insolvency Practitioners Association
Catherine Williamson	AlixPartners, The Zenith Building, 26 Spring Gardens, Manchester, M2 1AB	015570	Insolvency Practitioners Association

In accordance with paragraph 100(2) of schedule B1 of the Insolvency Act 1986, all functions of the Administrators are to be exercised by any or all of the Administrators. All references to the Administrators should be read as the Joint Administrators.

Appendix B. Receipts and Payments Account for the period 30 November 2015 to 29 May 2016

Receipts and Payments Account – GBP £

Statement of Affairs £	Floating charge assets	£
	Receipts	
	Funding from USD account	700,000
	Bank interest	35
		700,035
	Payments	
	Category 1 disbursements	
	Statutory advertising	85
	Legal fees	
	Post-appointment legal fees	502,886
	Legal disbursements	8,793
	Irrecoverable VAT	102,353 *
	Bank charges	15
		(614,132)
	Balance	85,903
	Represented by	
	Interest bearing account	85,903
		85,903

Receipts and Payments Account – USD \$

Statement of Affairs \$	Floating charge assets	\$
	Receipts	
8,600	Intercompany receivables	-
	AO&GNL sale proceeds and assignment of inter company debt	6,096,000
	Bank interest	162
		6,096,162
	Payments	
	Funding to GBP account	1,009,327
	Bank charges	4
		(1,009,331)
	Balance	5,086,831
	Represented by	
	Interest bearing account	5,086,831 **
		5,086,831

*The Company was not registered for VAT therefore the Administrators are unable to recover any VAT on expenses incurred

**Sterling equivalent as at 29 May 2016 = £3,474,306, converted at a rate of £0.683 \$1

The Group operated internationally and transacted primarily in USD\$ during the course of trading. The majority of Administration realisations are USD\$ currency and therefore the Administrators are maintaining bank accounts in USD\$ as well as GBP£. Transactions between the currency accounts are being kept to a minimum in order to mitigate the impact of currency holdings on the estate.

Appendix C. Administrators' fees and pre-administration costs

Fees

A copy of 'A Creditors' Guide to Administrations' can be downloaded from AlixPartners' creditor portal (www.alixpartnersinfoportal.com) If you would prefer this to be sent to you in hard copy please contact the Administrators and they will forward a copy to you

Approval of the Administrators' fees will be sought in accordance with rule 2.106 of the Insolvency Rules 1986. Where no creditors' meeting has been held or requisitioned, the Administrators must seek the approval of each secured creditor of the Company, to the basis of the Administrators' fees, disbursements, pre-administration costs and discharge from liability

As at the date of this report, the Administrators are yet to receive the approval of the secured creditors to resolutions regarding the basis of their remuneration, disbursements, pre-administration costs and discharge from liability. Should the approval of the secured creditors not be obtained, the Administrators will apply to the court to approve their fees, disbursements, pre-administration costs and discharge from liability

Administrators' fee estimate

The fee estimate was provided in the Proposals. A copy of that estimate of the anticipated amount of work and the costs associated with it is set out below.

Activity category	Hours anticipated	Blended rate per hour £	Anticipated cost £
Asset realisation	650	592	385,011
Statutory compliance and reporting	165	472	77,892
Investigations	50	458	22,909
Dealing with creditors	107	484	51,923
Total	972	553	537,735

The above estimate was based on information available to the Administrators at the time the approval of their fee basis was sought.

Administrators' details of time spent to date

The Administrators' time costs for the Period are £266,461. This represents 494 hours at an average rate of £539 per hour. Detailed below is a Time Analysis for the Period which provides details of the costs incurred by area of activity.

	Hours incurred	Average rate per hour £	Time cost for the Period £
Administration (including statutory reporting)			
Statutory duties	16.4	438	7,177
Administration and planning	99.2	484	48,002
Reporting to creditors	78.0	455	35,517
Creditors' meetings	1.5	395	593
Secured creditors	12.8	489	6,255
Unsecured creditors	6.9	462	3,187
Shareholders and other stakeholders	1.3	422	549
Realisation of assets			
Fixed charge	26.7	596	15,910
Floating charge	227.7	609	138,630
Debtors	0.6	545	327
Investigations			
Director conduct reports	13.1	420	5,500
Other investigations	2.6	388	1,009
Creditors (claims and distribution)			
Secured creditors	0.7	619	434
Unsecured creditors	6.6	511	3,375
Total	494.1	539	266,461

As asset realisations remain ongoing, should any protracted matters arise then further time will be incurred dealing with such matters. If appropriate, the Administrators will advise creditors in future communications.

Details of the progress of the Administration to date, and matters that are outstanding or partially complete, together with an explanation of why the work was undertaken are set out in section 3.

Based upon the current position, the Administrators believe that the fee estimate previously provided remains appropriate.

Pre-administration costs

The pre-administration costs were disclosed in the Proposals. As detailed previously, the Administrators will seek the approval of the secured creditors to the pre-administration costs. However, the approval has not yet been received.

In the event that approval to pay the pre-administration fees is not received, the Administrators will apply to the court for approval to discharge these costs.

Appendix D. Administrators' expenses and disbursements

Expenses of the Administration

The estimate of expenses anticipated to be incurred by the Administrators from third parties whilst dealing with the Administration was provided to creditors in the Proposals, a copy of that estimate is set out below

	Anticipated cost £
Legal costs	450,000
Agent's fees	1,500,000
Sundry costs	23,400
Total	1,973,400

Current position of Administrators' expenses

An analysis of the costs paid to date, together with those incurred but not paid as at the end of the Period is provided below

	Paid in prior period £	Paid in the Period £	Incurred but not paid £	Total anticipated cost £
Legal costs and disbursements	Nil	511,679	Nil	511,679
Agent's fees	Nil	Nil	Nil	Nil
Total	Nil	511,679	Nil	511,679

Due to the complexities of OML26, legal costs to date exceed the original estimate. Legal costs will increase further due to the protracted sales process of OML26. The Administrators' expenses in respect of agents' fees incurred to date have been paid from funds held in Afren Plc

Administrators' disbursements

A copy of the analysis of anticipated disbursements previously provided is set out below. The actual expenses may be found in the Receipts and Payments account in Appendix B

Category 1 disbursements:	Anticipated cost £
Specific penalty bond	225
Statutory advertising	85
Total	310

Category 1 disbursements of £85 have been drawn on account. No category 2 disbursements has been drawn to date

Appendix E. Additional information in relation to the Administrators' fees

Policy

Detailed below is AlixPartners' policy in relation to

- staff allocation and the use of sub-contractors,
- professional advisors, and
- disbursements

Staff allocation and the use of sub-contractors

The Administrators' general approach to resourcing assignments is to allocate staff with the skills and experience to meet the specific requirements of the case

The case team will usually consist of a managing director or a director, an associate director or senior associate, an associate and an analyst. The exact case team will depend on the anticipated size and complexity of the assignment and the experience requirements of the assignment. On larger, more complex cases, several staff at all grades may be allocated to meet the demands of the case. The Administrators' charge-out rate schedule provides details of all grades of staff.

With regard to support staff, time spent by treasury staff in relation to tasks such as recording transactions and dealing with bank accounts is charged but secretarial time is only recovered if a large block of time is incurred, eg report compilation and distribution.

The Administrators have not utilised the services of any sub-contractors in this case.

Professional advisors

On this assignment the Administrators have used the professional advisors listed below. Indicated alongside is the basis of the fee arrangement, which is subject to review on a regular basis.

Name of professional advisor	Basis of fee arrangement
Akin Gump LLP (legal advice)	Hourly rate and disbursements
PJT Partners (UK) Limited (financial and M&A advice)	Appointment fee, monthly retainer and capped transaction fee as part of wider engagement

The Administrators' choice is based on their perception of the professional advisors' experience and ability to perform this type of work, the complexity and nature of the assignment and the basis of the fee arrangement with them.

Disbursements

Category 1 disbursements do not require approval by creditors. Category 1 disbursements may include external supplies of incidental services specifically identifiable to the case eg postage, case advertising, invoiced travel and external printing, room hire and document storage. Any properly reimbursed expenses incurred by the Administrators and their staff will also be chargeable.

Category 2 disbursements do require approval prior to being paid and will be drawn in accordance with the approval given, they may include:

- photocopying – charged at the rate of 10 pence per sheet for notifications and reports to creditors and other copying,
- printing – charged at the rate of 10 pence per sheet for black and white printing and 15 pence per sheet for colour, and
- business mileage for staff travel - charged at the rate of 45 pence per mile

Charge-out rates

A schedule of AlixPartners' hourly charge-out rates for this assignment effective from 1 February 2016 is detailed below, together with those applicable prior to that date. Time is charged by managing directors and case staff in units of six minutes.

Description £	Rates from 1 February 2016	Description £	Rates pre 1 February 2016
Managing director 1	865	Managing director 1	840
Director	705	Director	685
Associate director	600	Associate director	570
Senior associate	550	Senior associate	550
Associate	420	Associate	420
Analyst	410	Analyst	390
Junior analyst	230	Junior analyst	230
Senior treasury associate	280	Senior treasury associate	280
Treasury associate	190	Treasury associate	190
Treasury analyst	130	Treasury analyst	130
Support	120	Support	120

Appendix F. Exit routes

Extension

The Administration is due to end automatically on 29 November 2016, however it will not be possible to conclude all outstanding matters in the Administration prior to this date. Therefore, in accordance with paragraph 76 of schedule B1 of the Insolvency Act 1986, the Administrators intend to apply to court to seek an order extending the term of the Administration by a period of 24 months.

Dissolution of the Company

Based on present information, the Administrators think that the Company has insufficient property to enable a distribution to be paid to its unsecured creditors, other than by virtue of the Unsecured Creditors' Fund. Therefore, the Administrators will file a notice, together with their final progress report, at court and with the Registrar of Companies for dissolution of the Company. The Administrators will send copies of these documents to the Company and its creditors. The appointment will end following the registration of the notice by the Registrar of Companies.

Compulsory liquidation

A liquidator of a company has certain powers such as the ability to disclaim onerous contracts or assets that are not available to an administrator. If such powers become necessary, the Administrators may make an application to court to end the Administration and request that the court places the Company into compulsory liquidation. The Administrators will send notice of any such application to the Company and its creditors.

Discharge from liability

Subject to the approval of the secured creditors or the court, the Administrators will be discharged from liability under paragraph 98 of schedule B1 to the Insolvency Act 1986 directly after their appointment as Administrators ceases to have effect.