

12 November 2014

Africa Opportunity Fund Limited ("AOF" or "the Company")

Interim Management Statement

This interim management statement has been produced by AOF to provide additional information to shareholders to meet the relevant requirements of the Financial Conduct Authority's Disclosure and Transparency Rules. It should not be relied on by any other party for any other reason.

This interim management statement relates to the period from 1 July 2014 to 30 September 2014 and contains information that covers this period, and up to the date of this interim management statement.

Market Conditions: AOF's Ordinary Share (listed on the SFM under the ticker "AOF LN") NAV decreased 4.2% and AOF's C-Shares (listed on the SFM under the ticker "AOF LN") NAV decreased 1.3% during Q3 2014. By comparison, in US dollar terms in Q3 2014 the S&P rose 1.1%, South Africa fell 7.9%, Egypt rose 20.5%, Kenya rose 8.0%, and Nigeria fell 3.1%.

Ordinary Share Portfolio Highlights: There were three primary reasons for the Q3 decline in AOF's Ordinary Share NAV: a 7.5% share price decline of Enterprise Group ("EGL") in US Dollars; the August placing of African Bank Investments Limited ("African Bank") into curatorship by the South African Reserve Bank; and the placing of Triton Logging, a mechanical underwater logging harvesting company, into receivership.

EGL's share price fall followed the steep decline in its reported H1 2014 profits, reducing its market capitalization from a peak of US\$131 million in February to US\$66 million at the end of September 2014. More worrisome was an unanticipated 20% fall in EGL's rolling 12 month operating cash flow as it struggled with sales of its life and savings products in a tough Ghanaian macro-economic environment. A natural question in the wake of a 50% drop in EGL's market capitalization is whether its February market capitalization was a reliable guide to its long term market value. Sanlam of South Africa appeared to agree it was, offering 240 million Rand (or circa US\$22 million) to acquire 40% of EGL's general insurance subsidiary, thus valuing that subsidiary at US\$55 million. The balance of EGL, including its majority stake in its larger life subsidiary, has, by default, a current market valuation of US\$11 million on Ghana's stock exchange. By contrast, at February's US\$131 million capitalization, EGL's non-general insurance stub was capitalized at US\$76 million or, roughly, 2x the embedded value of EGL's life assurance interests - an eminently reasonable valuation for a life operation with excellent long-term prospects and a record of strong growth. We think that EGL's long term value is closer to its peak February valuation, therefore, we expect the losses suffered by AOF this year to prove to be of a temporary nature.

Regrettably, the same cannot be said for AOF's equity losses in African Bank. In hindsight, we overestimated the cumulative net operating cash flows generated from its loan book and were taken aback by the large loan provisions that led to its demise in August. Our fundamental mistake arose from a failure to heed a simple truth: over long periods, a lender cannot grant credit to borrowers at a faster rate than the growth of the borrowers' disposable income without suffering an increase of bad debts. African Bank's "good assets" will be listed in the first quarter of 2015 after imposing a 10% haircut on its senior unsecured debt holders, while its "bad assets" were sold to the South African Reserve Bank at a 60% discount to book value. The African Bank senior bonds held by AOF are supported by African Bank's "good assets".

Triton Logging is a development stage company which owns a concession to harvest 350,000 hectares of trees under the Volta Lake in Ghana. AOF has been invested in Triton since 2008. In spite of demonstrating the technical viability of its patented underwater harvesting equipment in Ghana, local Ghanaian fishermen prevented Triton from operating for more than a year by brazen assaults on Triton's employees and equipment. Triton has acquired new harvesting contracts in South America but found it necessary to file for receivership to restructure its balance sheet and raise more capital. AOF wrote down US\$660,000 of its Triton investment as part of that restructuring.

AOF did enjoy some positive gains in the quarter. For example, Tanzania Breweries (“TBL”) experienced a 73% rise in market capitalization to add 2.1% to AOF’s June 30 NAV. The shares rose in anticipation of foreign buying in TBL following removal of foreign ownership restrictions on the Dar Es Salaam Stock Exchange.

With regard to the ongoing Shoprite dispute, AOF served Shoprite with summons in the South African high court in September in its quest to obtain judicial confirmation of its title to its Shoprite shares. The case remains ongoing and further announcements will be made in due course

C Share Portfolio Highlights: This portfolio has exposure to 22 issuers. Continental Re, its largest holding with a market capitalization of US\$60 million, is one of four listed reinsurers in Africa. It has earned underwriting profits in 5 out of the last 6 years, trades on a Price/Book ratio of 0.65x, a rolling P/E ratio of 6x, and a dividend yield of 10.5%. Domiciled in Nigeria, but expanding across Africa, Continental Re should benefit from rising reinsurance premiums as insurance penetration deepens in Nigeria and other African countries. Unfortunately, cash collection is a weakness of Continental Re, resulting in receivables constituting 45% of net premium income and a modest return on equity of 11%. In effect, AOF C shareholders get a free option on Continental’s prospects. Building our portfolio has taken more time than anticipated, but our patience has been rewarded as recent market turbulence has provided value opportunities.

Ordinary Shares Portfolio Appraisal Value: As of 30 September, the Manager’s appraisal of the economic value of the portfolio was US\$1.20. The market price of US\$1.02 at 30 September represents a 15% discount. Note the Appraisal Value is intended to provide a measure of the Manager’s long-term view of the attractiveness of AOF’s portfolio. It is a subjective estimate, and does not tell when that value will be realized, nor does it guarantee that any security will reach its Appraisal Value.

C-Shares Portfolio Appraisal Value: As of 30 September, the Manager’s appraisal of the economic value of the portfolio was US\$1.07. The market price of US\$1.01 at 30 September represents a 6% discount. Note the Appraisal Value is intended to provide a measure of the Manager’s long-term view of the attractiveness of AOF’s portfolio. It is a subjective estimate, and does not tell when that value will be realized, nor does it guarantee that any security will reach its Appraisal Value.

Interim Results: On 29 August 2014, the Company released its Interim Results for the six months ended 30 June 2014.

Outlook: We believe that AOF’s ordinary share portfolio possesses undervalued companies. Its top 10 holdings (including the Naspers paired trade) combined offer a weighted average dividend yield of 4.5%, a rolling P/E ratio of 11.4x, a return on assets of 9.6% and a return on equity of 20%. Nevertheless, we view the short term future with caution. This year’s sell-off in commodity prices, ranging from rubber to iron-ore to oil, although a boon for oil importers like Kenya and Tanzania, is a harbinger of adverse terms of trade for many African countries, stretched government finances, weakening African currencies, and impaired valuations among African commodity operators in general. On the positive side, African consumers and farmers will be unequivocal beneficiaries of cheaper oil and food. These developments produce not only potential pitfalls but also numerous potential opportunities, particularly when viewed from a longer term perspective. The C share portfolio’s cash levels enable it to take full advantage of those opportunities. We remain optimistic about both AOF’s ordinary and C-share prospects.

C-Shares Conversion: AOF’s C shares are to be converted into ordinary shares of AOF when a minimum of 80% of the C share capital has been invested and a satisfactory outcome has been achieved in the Shoprite matter. The Board has determined that AOF should await further developments in the Shoprite case before proceeding with this conversion. Therefore, it is unlikely that this conversion will be consummated in 2014.

Investment Objective: To earn capital growth and income through value, arbitrage, and special situation investments in the continent of Africa. Portfolio investments will include equity, debt, and other interests in both listed and unlisted assets.

Listing: AOF was traded on the AIM market if the LSE until 17 April 2014 at which time it was admitted to trading on the LSE's Specialist Funds Market.

Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses), commencing Q1 2015.

Fund Performance (as of 30 September 2014) – Ordinary Shares

NAV per share:	US\$1.062	Total Net Assets:	US\$45.3 mm
Share price as at 30 Sep 14:	US\$1.015	Market Capitalisation:	US\$43.3 mm
Premium/Discount to NAV:	-4.43%	Shares outstanding:	42.6 mm

USUS\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	FY
2014	2.3%	3.1%	-4.0%	-3.2%	-8.0%	0.8%	0.6%	-2.2%	-2.6%	-12.8%

Top Ten Holdings - Ordinary Shares	Description	% of NAV
Sonatel	Dominant Senegalese and regional mobile phone provider	16.6%
Enterprise Group Ltd	Ghana insurance company engaged in property & casualty insurance, life assurance, and ownership of commercial and undeveloped property	13.7%
Shoprite Holdings Ltd	Largest South African food retailer operating over 1700 stores in 16 countries across Africa, while serving over 14 million shoppers annually	9.5%
Naspers Ltd	A leading television and media company in Southern Africa. It's China subsidiary Tencent is hedged with a short position (-6.9% of NAV), to isolate AOF's exposure to Nasper's Africa broadcast media franchise	7.0%
IAMGOLD Corp 6.75% 10/01/20	Gold mining company focused in West Africa, while also holding some South African and Quebec development & exploration projects	5.7%
Tanzania Breweries	Brewer and distributor of malt beer	5.3%
Tizir Ltd 9% 2017	1 st priority bond issued by a joint venture of Eramet of France and Mineral Deposits of Australia to develop the Grande Cote Mineral Sands Project in Senegal with the Tyssedal Titanium smelter in Norway providing collateral	5.0%
Standard Chartered Bank Ghana	Leading Ghana commercial bank	3.9%
Letshego	Botswana based consumer finance lender focused on government sector employees	3.5%
Pallinghurst Resources Ltd	Specialist mining holding company with investments primarily in manganese, platinum group metals, emeralds, and ruby producers in Zambia, Mozambique, and South Africa	3.4%

<i>TOTAL</i>		73.6%
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Fund Performance (as of 30 September 2014) – C-Shares

NAV per share:	US\$0.959	Total Net Assets:	US\$28.0 mm
Share price as at 30 Sep 14:	US\$1.005	Market Capitalisation:	US\$29.3 mm
Premium/Discount to NAV:	4.75%	Shares outstanding:	29.2 mm

USUS\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	FY
2014	N/A	N/A	N/A	-2.6%	-0.2%	0.0%	0.0%	-0.8%	-0.5%	-4.1%

Top Ten Holdings - Ordinary Shares	Description	% of NAV
Continental Reinsurance Plc	Nigerian reinsurance company which offers fire, marine & aviation, bond, auto, engineering, general accident and life reinsurance services	8.8%
African Bank Investments Ltd. 5% 2018	South African consumer finance company in restructuring	5.3%
Tizir Ltd 9% 2017	1 st priority bond issued by a joint venture of Eramet of France and Mineral Deposits of Australia to develop the Grande Cote Mineral Sands Project in Senegal with the Tyssedal Titanium smelter in Norway providing collateral	5.2%
Genel Energy Finance Ltd 7.5% 2019	Oil and gas exploration and production company, focused on the Middle East & Africa	5.0%
Letshego	Botswana based consumer finance lender focused on government sector employees	4.3%
Naspers Ltd	A leading television and media company in Southern Africa. It's China subsidiary Tencent is hedged with a short position (-3.2% of NAV), to isolate AOF's exposure to Nasper's Africa broadcast media franchise	3.1%
Afren Plc	Oil and gas exploration and production company, focused on West and East Africa as well as the Kudistan Region in Iraq	2.9%
Kosmos Energy Ltd	Oil and gas exploration and production company focused on Ghana & Offshore West Africa	2.7%
OCPSA 6.875% 2044	Moroccan phosphate & fertilizer product company	2.5%
IAMGOLD Corporation 6.75% 10/01/20	Gold mining company focused in West Africa, while also holding some South African and Quebec development & exploration projects	2.2%
<i>TOTAL</i>		<i>42.0%</i>

Fund Details

Bloomberg: AOF LN / AOFC LN Portfolio Francis Daniels

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