Africa Opportunity Fund Ltd – Ordinary Shares

30 June 2015

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: LSE Specialist Funds Market.

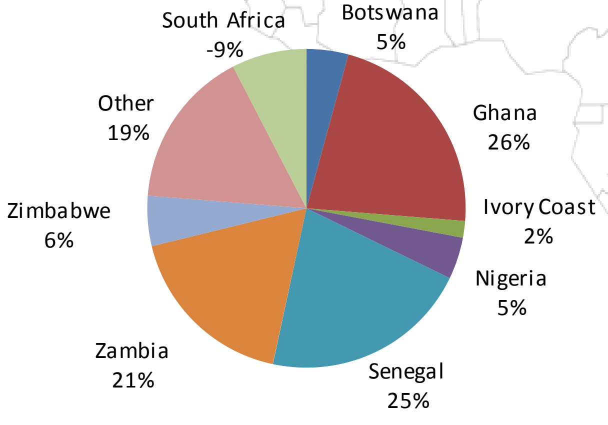
Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses), commencing Q1 2015.

Fund Performance (as of 30 June 2015) – Ordinary Shares

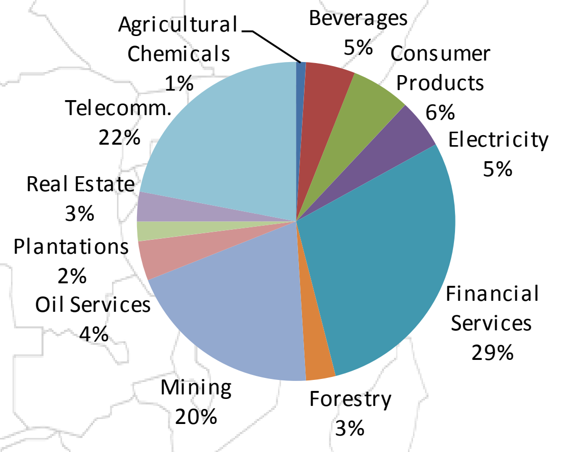
NAV per share:	$0.921	Total Net Assets:	$39.3 mm
Share price as at 30 June 15:	$0.8288	Market Capitalisation:	$35.3 mm
Premium/Discount to NAV:	-10.0%	Shares outstanding:	42.6 mm

US$ NAV Total Return %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2015	-5.2%	-1.8%	-2.5%	2.3%	1.0%	-2.5%							-8.5%
2014	2.3%	3.1%	-4.0%	-3.2%	-8.0%	0.8%	0.6%	-2.2%	-2.6%	-4.0%	-2.1%	0.9%	-17.3%
2013	4.9%	-0.8%	7.8%	5.6%	-1.6%	0.4%	3.2%	1.7%	2.8%	-0.3%	1.5%	-0.1%	27.7%
2012	1.8%	0.4%	-0.3%	0.8%	-6.1%	0.8%	-0.4%	-1.9%	1.1%	-2.4%	4.6%	6.4%	4.4%
2011	-1.4%	-1.1%	2.9%	5.5%	1.5%	-0.9%	4.2%	-2.5%	-9.0%	3.6%	-2.8%	2.6%	1.6%
2010	5.6%	1.2%	3.1%	4.7%	-8.4%	-6.7%	10.9%	0.3%	8.2%	7.5%	-3.5%	3.6%	27.1%
2009	-2.1%	-10.4%	16.7%	6.2%	3.7%	10.0%	5.0%	2.4%	8.0%	1.5%	1.6%	0.1%	48.2%
2008	-0.7%	1.9%	1.4%	1.0%	0.1%	-0.6%	-3.8%	-8.2%	-9.8%	-23.8%	-10.2%	-4.1%	-42.5%

Geographic Exposure



Sector



Holdings: 74% Equity, 17% Debt, 9% Unencumbered Cash

Top Ten Holdings - Ordinary Shares	Description	% of NAV
Sonatel	Dominant Senegalese and regional integrated telecommunications operator	17.6%
Enterprise Group Ltd	Ghana property & casualty insurance and life assurance company	14.1%
Shoprite Holdings Ltd	Largest South African food retailer operating over 2100 stores in 15 countries	7.1%
IAMGOLD Corp 6.75% 10/01/20	Gold mining company focused in West Africa	6.5%
Letshego	Botswana based consumer finance lender focused on government employees	4.6%
Tizir Ltd 9% 2017	1st priority bond backed by Grande Cote minerals sands project in Senegal	4.4%
Tanzania Breweries	Brewer and distributor of malt beer, other beverages, and spirits	4.4%
Copperbelt Energy Corporation plc	Electricity transmission and distribution company operating in Zambia and Nigeria	4.0%
Standard Chartered Bank Ghana	Leading Ghana commercial bank	3.7%
Massmart Holdings	A distributor and retailer of general merchandise, food and liquor	-3.1%
TOTAL		*63.3%*

Africa Opportunity Fund Ltd – C-Shares

30 June 2015

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.

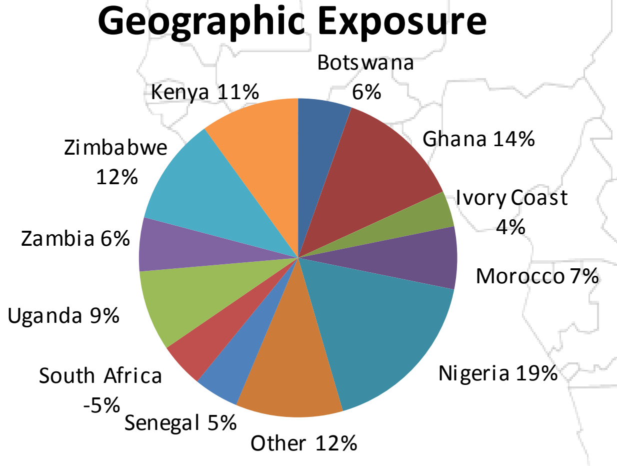
Listing: LSE Specialist Funds Market.

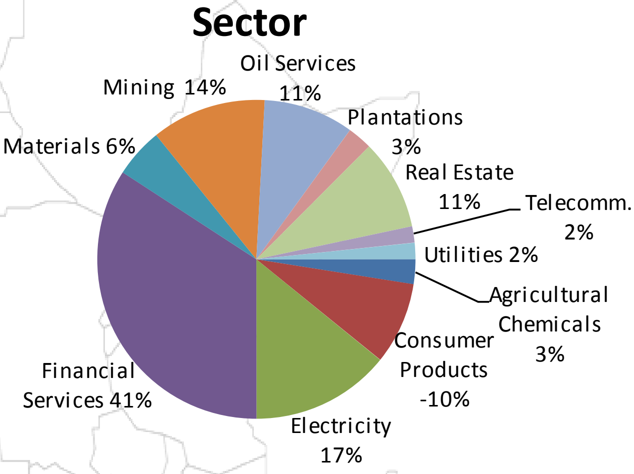
Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses), commencing Q1 2015.

Fund Performance (as of 30 June 2015) – C-Shares

NAV per share:	$0.864	Total Net Assets:	$25.2 mm
Share price as at 30 June 15:	$0.94	Market Capitalisation:	$27.4 mm
Premium/Discount to NAV:	8.8%	Shares outstanding:	29.2 mm

US$ NAV Total Return %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2015	-2.5%	-0.7%	-0.7%	1.6%	1.5%	-4.4%							-5.3%
2014	N/A	N/A	N/A	-2.6%	-0.2%	0.0%	0.0%	-0.8%	-0.5%	-2.0%	-2.4%	-0.5%	-8.8%





Holdings: 72% Equity, 14% Debt, 14% Unencumbered Cash

Top Ten Holdings – C-Shares	Description	% of NAV
Kenya Power & Lighting Ltd	Company that transmits and distributes electricity in Kenya	9.1%
Continental Reinsurance Plc	Nigerian reinsurance company	8.5%
Shoprite Holdings Ltd	Largest South African food retailer operating over 2100 stores in 15 countries	-7.9%
Stanbic Bank Uganda Ltd	Largest commercial and merchant bank in Uganda	7.6%
African Bank Investments 5% 2018	South African consumer finance company in restructuring	6.1%
Mashonaland Holdings Ltd	Zimbabwean commercial property owner and property developer	5.9%
Letshego	Botswana based consumer finance lender focused on government employees	5.4%
Dangote Cement Plc	Largest sub-Saharan African cement producer, domiciled in Nigeria	5.3%
Copperbelt Energy Corporation plc	Electricity transmission and distribution company operating in Zambia and Nigeria	5.0%
Enterprise Group Ltd	Ghana property & casualty insurance and life assurance company	4.9%
TOTAL		*49.9%*

Manager's Commentary

Market Conditions

The Africa Opportunity Fund ("AOF") ordinary share NAV rose marginally in Q2. At the same time, the share price fell 2.5% from $0.85 to $0.83. As a reference, in US dollar terms in Q2 the S&P rose 0.3%, Brazil rose by 7%, Russia rose 8%, India fell 2%, and China rose 15%. In Africa, South Africa fell marginally, Egypt fell 10%, Kenya fell 12%, and Nigeria rose 7%.

Ordinary Share Portfolio Highlights

The past quarter brought market headwinds in the form of rising interest rates and adverse terms of trade as commodity prices, ranging from iron ore to gold and copper, continued their collapse. A few African currencies weakened sharply: Ghana's Cedi fell by 13% against the US Dollar; the Tanzanian shilling by 7%. Nevertheless, many parts of the African economy continue to expand and good companies thrive through this period of cyclical turbulence. For example, Enterprise Group's total return in Cedis in Q2 was 22% (and 6% in US Dollars) versus 0.1% in Cedis (and -12% in US Dollars) for Standard Chartered Bank. Contrasting profit results support those contrasting returns. Enterprise's H1 profits attributable to shareholders rose by 5% in US Dollars while Standard Chartered Bank's profits fell by 52%. Standard Chartered's loan book is scarred by a high non-performing loan ratio of 17% while Enterprise enjoyed the fruits of investing in Ghana government securities bearing real interest rates exceeding 7%. Furthermore, Enterprise's net premium revenue increased by 5% while its insurance claims and charges rose by 4%, year-on-year, despite a 27% depreciation in the average Cedi/$ exchange rate. Those modest growth rates are encouraging because they have occurred in an economy growing around 3%, hobbled by persistent power outages and a depreciation of the average Cedi/$ exchange rate, year-on-year, of 27%. Enterprise's silver lining is that it is passing a tough national stress test. Sadly, these companies are vulnerable to more pain over the next 18 months before Ghana emerges from its national crisis. We remain steadfast shareholders because they have long track records of increasing their earnings per share, in US Dollars, regardless of the intermittent collapses of the Cedi against the US Dollar.

Letshego made the biggest positive contribution to AOF's Q2 results. It added 1 cent to AOF's NAV. Letshego is a consumer finance company domiciled in Botswana and listed on the Botswana Stock Exchange. There are only two African countries blessed by a long record of democratic stability and an absence of sovereign debt default: Botswana and Mauritius. Letshego has operations in several countries in southern and eastern Africa. It had a market capitalization of $710 million at the end of June and traded on a Price/Book ratio of 1.85x. Letshego started life as a company which made loans to Botswana civil servants which were repaid by payroll deductions made by the Botswana government. In effect, a repayment obligation was akin to monthly taxes and collections on its loans have been strong. Letshego has enjoyed strong capital levels. Shareholders equity, as a % of total assets, was 70% at the end of 2014; return on assets was 13%; and return on equity was 20%. Letshego resolutely reinvested more than 80% of its profits in its operations for the better part of a decade. This May, Letshego sought shareholder approval to buy back, and cancel, 10% of its share capital, signifying that it has an excess of capital. Consequently, its share price rose 33% (in Pula terms and 34% in US Dollars) in Q2. Years of modest shareholder distributions appear to be coming to an end. The largest single source of Letshego's profits is Botswana. But, other countries like Namibia, Mozambique, and Tanzania have grown in importance over the years. It is about to enter Nigeria. Letshego's expansion has had setbacks. It entered and exited Zambia, after enduring unacceptable losses. It has begun to introduce other collection methods besides payroll deduction, despite the higher loss ratios which accompany other collection methods. AOF's holding in Letshego shares was built between 2009 and 2012. Quietly and steadily, in a manner reminiscent of Botswana's fortunes over the years, they have risen in value.

Tanzania Breweries suffered a 10% loss in Q2. 70% of that loss was caused by the depreciation of the Tanzanian shilling against the US Dollar and the balance came from a fall in its share price. All the shillings - Tanzanian, Kenyan, and Ugandan - depreciated against the US Dollar. Each country has a large current account deficit, whether it is because of low tourist numbers in the case of Kenya or a tumbling gold price in the case of Tanzania. Nevertheless, Tanzania Breweries' financial performance continues to sparkle, so we remain shareholders in spite of the misfortunes of the Tanzanian shilling. Its free cash flow, as a % of revenue, rose to 17%, continuing a regular growth which has been a feature of its performance since 2011. Tanzania Breweries enjoys a debt/equity ratio of 9% and a return on equity of 36%, despite the fact that lager volumes declined 7% because of a 20% increase in Tanzanian excise tax. Its operational excellence makes Tanzania Breweries one of the most predictable and profitable beverage companies in Africa. We expect that its lager volumes will increase in the current financial years because Tanzania has refrained this year from increasing its excise tax.

Elsewhere in the portfolio the flat prices of Shoprite translated into a lower US Dollar price. Shoprite's share price in Zambia suffers from the overhang of litigation. The 39% discount to the JSE price at which it traded at the end of Q1 widened slightly to 41% at the end of Q2. AOF and Shoprite have not been able to agree on dates for an arbitration, therefore, it seems that the Shoprite matter will be heard only in 2016.

AOF's portfolio of commodity producers and suppliers (extracting gemstones, gold, manganese, mineral sands, oil and gas, platinum, rubber and palm oil, and servicing the oil industry) turned in a flat outcome in Q2. A benign quarter for the prices of commodities like crude oil, rubber and palm oil balanced falling platinum and gold prices to constitute one factor behind that outcome. Additional company idiosyncratic factors included the announcement by Kosmos Energy of the largest offshore gas discovery to date in 2015 in Mauritanian waters. Initial estimates are that the discovery could hold 5 to 12 trillion cubic feet of gas. Kosmos intends to determine, through drilling three appraisal wells by Q3 2016, whether the minimum size of this discovery is 15 trillion cubic feet of gas, a large field by any standard. Hydrocarbon discoveries may seem superfluous in a period of low oil prices, but, in time, cycles turn and the superfluous becomes essential. Nevertheless, changes in the quarterly market value of AOF's commodity producers will tend to reflect short-term commodity price movements.

C Share Portfolio Highlights

The NAV of AOF's C share declined 1.5% in Q2. The C share's portfolio has exposure to 31 issuers, of which 10 are new issuers to AOF. It must be admitted that entering Kenya just as the Kenyan shilling weakened appreciably against the US Dollar worked against us. Kenya Power & Lighting, constituting nearly 8% of the C Share's NAV, was down 4.5% during this quarter. Kenya has also begun to raise interest rates to limit the inflationary impact of its depreciating currency. Uganda and Tanzania are in the same macro-economic state as Kenya. According to the International Monetary Fund, Kenya's primary fiscal balance (i.e. budget deficit before interest expense), as a percentage of its gross domestic product, has worsened steadily from -3% in 2013 to a projected -5% in 2015, despite its current account deficit/GDP ratio declining from 8.7% to a projected 7.3% in 2015. It is axiomatic that a company trading on a P/E ratio of 5x or less must be the victim of some error. In the case of Kenya Power, an increase of 142% in its total assets to $2.5 billion between 2010 and 2014 led to only a 29% increase in its revenues to $1.2 billion, despite interest expense rising by 622% over that period. Kenya Power borrowed to expand its network to connect Kenyans to its grid and to subsidize 70% of each customer's connection costs without a material improvement in the affordability of its connection service to the numerous unconnected Kenyans - hence its growing debt/equity ratio of 136%. Kenya Power's debt levels rose to the point where it breached some financial covenants. Kenya Power, the Government of Kenya, and the World Bank concluded a radical reshuffling of responsibilities earlier this year under which Kenya's Rural Electrification Authority will bear the subsidy connection burden and the World Bank will provide Kenya Power a $200 million guarantee to enable a favorable refinancing and extension of its current commercial debts. Through the Kenya government, the International Development Agency of the World Bank is granting $150 million to Kenya Power to connect all households and businesses in high density peri-urban areas to existing electricity networks. The World Bank projects that the 5 year outcome of its interventions will be a 123% growth in Kenya Power's revenues by 2020, accompanied by a modest increase in its asset base and a decline in its financing costs to 6% - a level lower than that of the Kenyan government - and a 150% increase in its net profits from a forecast 6.5 billion Kenyan shillings in 2015 to 16.5 billion Kenyan shillings by 2020. Best of all, it is intended that Kenya would have achieved universal access to electricity by 2020, up from the current level of 35%. Kenya Power should be rerated as the financial benefits of cheaper finance become visible in higher profitability.

The C shares acquired shares of Dangote Cement during Q2. Dangote Cement is the biggest cement company in sub-Saharan Africa. Africa's infrastructure investment drive of the next decade will be fed by copious amounts of cement. What are the appealing features of an investment in Dangote Cement? The first is operational quality and scale. The second is price. Dangote Cement owns efficient cement plants throughout sub-Saharan Africa. Its largest plants are in Nigeria. But, it is building new integrated plants in the Republic of Congo, Ethiopia, Senegal, South Africa, Tanzania, and Zambia, grinding plants in the Cameroon and other countries, and import terminals in other countries. Dangote Cement has an enterprise value of $16.4 billion today versus an enterprise value of $14.6 billion when it listed in October 2010. Annual cement capacity in 2010 was 9 million tonnes versus current annual capacity of 34 million tonnes. Dangote's enterprise value/EBITDA multiple was 18.8x in 2010 versus its current 12.1x. Dangote Cement embraces two profit regimes: Nigeria; and the rest of Africa. Nigeria's EBITDA margin, accounting for 94% of Dangote's EBITDA, hovers around 60%; EBITDA margins in the rest of Africa can aspire to relatively pedestrian levels in the 30%-40% range. Dangote Cement appealed to us for three reasons: Nigerian cement prices tend to track the Naira/Dollar exchange rate making cement a commodity priced in US Dollars; it has the lowest operating cost fleet of cement plants in sub-Saharan Africa because of its use of natural gas in its major plants; and its non-Nigerian expansion to 18 million tonnes of annual capacity. The last point is worth emphasizing: at current valuations the implied value of this expansion is zero, despite a $2 billion investment. Dangote does stir controversy: its free float of shares is less than 10%; it promised faster capacity growth and larger profits than its actual results have yet provided; the Nigerian cement industry is mired in overcapacity; and no one knows when its high EBITDA margins will descend to earth from their current Olympic levels. Nevertheless, Dangote Cement is a superb business available at a reasonable valuation.

The C shares had a tough quarter in Zimbabwe. Mashonaland Holdings suffered a 31% decline in its market capitalization on tiny trading volumes - the sale of 378 shares on June 17 for the princely sum of $7.52. It has to be admitted that Zimbabwe is experiencing the bad sort of deflation - the deflation caused by contracting aggregate demand. US Dollar pricing of Zimbabwean manufactured goods must fall for those goods to compete with South African goods priced in a depreciating Rand. For example, a can of Castle beer, before excise duties, costs $0.68 in Zimbabwe and $0.54 in South Africa. Zimbabwe needs a few years of falling consumer prices to eliminate South Africa's advantage. As the Rand depreciates against the US Dollar, the Zimbabwean consumer price index will have to decline even more for Zimbabwean production to match South African production. Large companies like Econet have asked their suppliers to cut their prices to enable Econet to preserve its margins. Property companies like Mash and Pearl will have to reduce their rents, so diminished revenues and profits beckon in the remainder of 2015. Zimbabwean commercial property rents are already the lowest in southern Africa. Therefore, the rate of decline of Zimbabwean rents should be quite modest, although there is plenty of scope for the value of undeveloped land to drop sharply in response to weakening building activity and high interest rates. Fortunately, we have always accorded *de minimus* value to the undeveloped land banks of our Zimbabwean property companies. To date, we are sitting on losses in our Zimbabwean property portfolio, but we remain convicted that the market valuation of Zimbabwean property companies should more than double, some day, to equal even reduced replacement values of their properties.

The short positions of AOF's C share portfolio lost 5% in Q2, or 1 cent per C share.

Portfolio Appraisal Value

As of June 30 the Manager's appraisal of the intrinsic economic value of the Ordinary Share portfolio was $1.16 per share. The market price of $0.828 at quarter end represents a 29% discount. The Manager's appraisal of the intrinsic economic value of the C Share portfolio was $1.11 per share. The market price of $0.94 at quarter end represents a 16% discount. Note the Appraisal Values are intended to provide a measure of the Manager's long-term view of the attractiveness of AOF's ordinary share 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.

Strategy

We remain focused on investing in companies that sell goods and services in short supply in Africa. We also invest in commodity related companies, on a selective basis, when we can implicitly purchase the underlying resources at a material discount to spot market values. AOF's ordinary share portfolio possesses undervalued companies. Its top 10 holdings offer a weighted average dividend yield of 7.4%, a rolling P/E ratio of 10.6x, a return on assets of 10%, and a return on equity of 22%. The corresponding statistics for the top 8 equity holdings in AOF's C share portfolio are a dividend yield of 6%, a P/E ratio of 17, a return on assets of 4.7%, and a return on equity of 13%. As African markets adjust to the down draft of weak commodity prices and volatility stalks those markets, we are finding excellent long and short opportunities. Yet, caution is necessary. It is a privilege to have investible funds. We intend to exercise that privilege with prudent confidence.

Africa Opportunity Fund Ltd

30 June 2015

Fund Details (Ordinary Shares)

Bloomberg:	AOF LN
Reuters:	AOF.L
Website:	www.africaopportunityfund.com
Listing:	SFM / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921048 Euroclear/Clearstream
Inception:	26 July 2007
Domicile:	Cayman Islands

Fund Details (C-Shares)

Bloomberg:	AOFC LN
Reuters:	AOFc.L
Website:	www.africaopportunityfund.com
Listing:	SFM / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921121 Euroclear/Clearstream
Inception:	17 April 2014
Domicile:	Cayman Islands

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Important Information